



## **BANCO BPI, S.A.**

**(incorporated with limited liability in Portugal)**

### **€2,000,000,000 PUBLIC SECTOR BONDS PROGRAMME**

Banco BPI, S.A. (the “**Issuer**”, “**Banco BPI**” or “**BPI**”), incorporated under Portuguese law, with a fully paid up share capital of €1,293,063,324.98, represented by 1,456,924,237 ordinary shares with no nominal value, with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto and registered under the sole registration and taxpayer number 501 214 534 with the Commercial Registry Office of Porto, is an authorised credit institution for the purposes of Decree-Law no. 59/2006, of 20 March 2006 (the “**Public Sector Bonds Law**”). The Public Sector Bonds (as defined below) will constitute bonds for the purposes, and with the benefit, of the Public Sector Bonds Law.

Under this € 2,000,000,000 Public Sector Bonds Programme (the “**Programme**”), described in this base prospectus, dated 19 March 2019 (the “**Base Prospectus**”), as further supplemented, the Issuer may from time to time issue public sector bonds (the “**Public Sector Bonds**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Public Sector Bonds will be issued in registered (*nominativas*) form (the “**Registered Public Sector Bonds**”) and be represented in book-entry form (*escriturais*). The maximum aggregate nominal amount of all Public Sector Bonds from time to time outstanding under the Programme will not exceed € 2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. Public Sector Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Summary of the Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together, the “**Dealers**”), whose 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 Public Sector Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Public Sector Bonds.

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

This document comprises a base prospectus for the purposes of Article 135-C of the Portuguese Securities Code (as amended from time to time and which was approved by Decree-Law no. 486/99, of 13 November 1999, the “**Portuguese Securities Code**”) which implemented Article 5.4 of Directive no. 2003/71/EC, of 4 November 2003, as amended (the “**Prospectus Directive**”), of Article 26 of the Commission Regulation (EC) no. 809/2004, as amended (the “**Prospectus Regulation**”) and of the further relevant Portuguese laws which regulate the provision of information with respect to the issue of Public Sector Bonds of the Issuer under the Programme until no more Public Sector Bonds are continuously or repeatedly issued under the Programme, pursuant to Article no. 143(1) of the Portuguese Securities Code. Application has been made to the *Comissão do Mercado de Valores Mobiliários* (the “**CMVM**”), as Portuguese competent authority under the Prospectus Directive, the Prospectus Regulation and the Portuguese Securities Code to approve this document as a Base Prospectus for the purposes of admitting Public Sector Bonds to trading on regulated markets under Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments as amended, and further application has been made to Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. for the admission of Public Sector Bonds issued under the Programme to trading on the regulated market Euronext Lisbon (“**Euronext Lisbon**”). References in this Base Prospectus to Public Sector Bonds being “listed” (and all related references) shall mean that such Public Sector Bonds have been admitted to trading on Euronext Lisbon. The Issuer may also issue unlisted Public Sector Bonds and/or Public Sector Bonds not admitted to trading on any market.

The rating of certain Series of Public Sector Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Public Sector Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) no. 1060/2009, as amended from time to time (the “**CRA Regulation**”) will be disclosed in the Final Terms. In general, European entities 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 operating in the European Union before 7 June, 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused.

*Arranger*  
Banco BPI

*Dealer*  
Banco BPI

19 March 2019

## TABLE OF CONTENTS

TABLE OF CONTENTS-----	2
RISK FACTORS-----	5
GENERAL DESCRIPTION OF THE PROGRAMME-----	53
RESPONSIBILITY STATEMENTS-----	55
DOCUMENTS INCORPORATED BY REFERENCE-----	59
FORM OF THE PUBLIC SECTOR AND CLEARING SYSTEMS-----	63
FINAL TERMS OF THE PUBLIC SECTOR BONDS-----	66
TERMS AND CONDITIONS OF THE PUBLIC SECTOR BONDS-----	79
CHARACTERISTICS OF THE COVER POOL-----	104
INSOLVENCY OF THE ISSUER-----	109
COMMON REPRESENTATIVE OF THE HOLDERS OF PUBLIC SECTOR BONDS-----	111
COVER POOL MONITOR-----	112
DESCRIPTION OF THE ISSUER-----	114
THE ORIGINATOR'S STANDARD BUSINESS PRACTICES, CREDIT ASSESSMENT AND SERVICING OF THE COVER POOL-----	132
USE OF PROCEEDS-----	135
THE PUBLIC SECTOR BONDS LAW-----	136
TAXATION-----	142
SUBSCRIPTION AND SALE AND SECONDARY MARKET ARRANGEMENTS-----	149
GENERAL INFORMATION-----	154
DEFINITIONS-----	161
ANNEX – ALTERNATIVE PERFORMANCE MEASURES-----	170

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

If the Final Terms in respect of any Public Sector Bonds includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Public Sector Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”) (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on insurance distribution (as amended) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Directive 2003/71/EC, on the prospectus to be published when securities are offered to the public or admitted to trading (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Public Sector Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Public Sector Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **MIFID II PRODUCT GOVERNANCE**

A determination will be made at the time of 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 a Tranche of Public Sector Bonds is a manufacturer in respect of that Tranche, but otherwise neither the Arranger nor the Dealer nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules. The Final Terms in respect of any Public Sector Bonds (or pricing supplement, as the case may be) will include a legend entitled “MiFID II Product Governance” which will outline the product approval process of any manufacturer, the target market assessment in respect of the Public Sector Bonds and which channels for distribution of the Public Sector Bonds are appropriate. Any person subsequently offering, selling or recommending the Public Sector Bonds (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Public Sector Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

## **BENCHMARK REGULATION**

Amounts payable under the Public Sector 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 Prospectus, ICE appears and EMMI do 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.

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Public Sector 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 Public Sector 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 Public Sector Bonds issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Public Sector Bonds for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Public Sector 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.*

*Capitalised terms but not otherwise defined in this risk factors section shall have the meanings given to them under “Terms and Conditions of the Public Sector Bonds”.*

### **RISKS SPECIFIC TO THE ISSUER**

#### **Public Sector Bonds are obligations of the Issuer only**

The Public Sector Bonds will constitute unsubordinated obligations of the Issuer secured by a special creditor privilege (“*privilégio creditório especial*”) created under the Public Sector Bonds Law over the Cover Pool (as defined in *Terms and Conditions of the Public Sector Bonds*) maintained by the Issuer. An investment in the Public Sector Bonds, although secured by the Public Sector Credits included in the Cover Pool, 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 Public Sector Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators. The Public Sector Bonds are not guaranteed by any person. In addition, an investment in Public Sector 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 Public Sector Bonds.

The Public Sector Bonds will not represent an obligation or be the responsibility of the Arranger or of the Dealer(s) or any person other than the Issuer.

The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Public Sector Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators.

#### **The Global Financial Volatility may impact the performance of the Issuer**

The Issuer's performance is reliant on and influenced by economic activity and the conditions of global financial markets.

After the economic and financial credit crisis of 2007-2008, global growth has recovered and financial markets stabilized on the basis of proactive economic policies around the globe, with particular emphasis on central banks' policies in developed economies. Short term interest rates have been slashed to the minimum threshold, in some cases turned negative, and the major central banks supplied ample funding and liquidity to the world financial system, embarking on so-called non-conventional monetary policies. Since

2015, healthier growth and improvements on the inflation front have dictated a gradual move towards the reduction of global monetary policy stimuli. These moves continued to be made on a cautious way, as inflation and inflation expectations remain below central bank's comfortable levels and targets. Since December of 2015, the U.S. Federal Reserve ("**Fed**") has been gradually increasing its key rate, reaching 2,5 per cent (upper bound), in December 2018. For 2019, the bias remains in favour of additional hikes in the fed-funds, but its materialization will be strongly dependent on the progress of economic activity. Moreover, last year the Fed continued the process of balance sheet normalization, which started in October 2017, by reducing the amount of reinvested securities in the portfolio that reach maturity. The European Central Bank ("**ECB**") has also reduced the ultra-accommodative nature of its policy, finishing the monthly purchases under the Public Sector Purchase Programme in December 2018. Despite the cautious stance of central banks in the process of monetary policy normalization, abrupt market changes in perception could eventually occur, causing shifts in risk premia, especially regarding assets or regions perceived to be more vulnerable, and impact the issuer. Political factors also continue to constrain the outlook, adding uncertainty. There are still relevant doubts relating to the Brexit process and adverse effects related to the adoption of protectionist measures (see *United Kingdom's Exit from the European Union*).

The outlook for the global economy in 2019 remains positive, but the downside risks are significant. On the macrofinancial side, central banks face the challenge of ensuring that monetary normalisation does not adversely affect the macrofinancial conditions. In the geopolitical sphere, protectionist risks will remain prominent and in the euro area, Brexit and Italy, will continue to be important factors of uncertainty. In the US, the reduction/end of the fiscal stimuli package should lead to a slower growth in 2019. Negative developments in the international trade area due to the implementation of protectionist policies may also occur, as well as any disruption with a major global player (especially China) causing unexpected dislocations in geopolitical risks, although low probabilities are attributed to these events.

In the Eurozone, the ECB confirmed the end of its net purchases of assets. However, the ECB will proceed with a very accommodative policy, reinvesting the amounts of securities in the portfolio that reach maturity. Regarding interest rates, the ECB is strongly committed to maintain them at the very low levels, not considering any upward movement before the Summer of 2019. However, monetary policy path is subject to a certain degree of uncertainty, namely in which refers to the normalization of interest rates. Although the economy is expected to continue to grow, risks are biased on the downside and its materialization will delay the beginning of the normalization of interest rates. On the other hand, the ECB will face during 2019 changes in the Board composition, and this is an additional factor of uncertainty. In these circumstances volatility may increase, with negative impact in the risk premia of peripheral countries perceived to be more vulnerable, such as Portugal. Hence, the sovereign risk premium would increase, with negative implications for financing costs internally. In the case of the US Federal Reserve there is a risk that further increases of the fed-funds rate are perceived as a restrictive measure, causing higher volatility in the financial markets. A worst-case scenario might include a disorderly increase in long term interest rates, with negative impacts on households' and firms' confidence indices and economic growth. In an adverse scenario, this could have a negative impact on balance-sheet valuations and risk perceptions might change, with impact on the capacity of the Issuer to access international wholesale financial markets which may adversely affect the performance of the Issuer.

### **United Kingdom's Exit from the European Union**

On 23 June 2016, the United Kingdom held a referendum, which voted in favour of an exit from the European Union, creating several uncertainties within the United Kingdom, and regarding its relationship

with the European Union. On 29 March 2017, the United Kingdom served notice, in accordance with Article 50 of the Treaty on European Union, of its intention to withdraw from the European Union. The process for the United Kingdom's departure from the EU appeared to be well set out when, back in December 2017, the EU and the United Kingdom laid down the foundations of the exit agreement. Both parties also agreed, in March 2018, to establish a transition period after Brexit – until December 2020 – during which the two parties would negotiate their future relationship. In particular, it was agreed that, during this period, the United Kingdom would remain within the Single Market and the Customs Union in order to minimise any disruption and to help the economic agents to adjust to the new post-Brexit scenario. However, the entry into force of this transition period is conditional on both sides reaching a definitive exit agreement, which should be ratified by the UK Parliament and take place until 29 March 2019.

Moreover, as the withdrawal date (March 2019) approaches, there is an increasing risk that the United Kingdom and the European Union part ways without any agreement regarding such crucial matters as trade in goods and services, security and immigration cooperation, in which case Brexit could become very problematic for both the United Kingdom and the European Union member-states. The consequences of Brexit are uncertain with respect to the European Union integration process, the relationship between the United Kingdom and the European Union, and the impact on economies and European businesses. Should international trade between the United Kingdom and the Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, given the importance of the United Kingdom as a market for the export of goods, with a 6,8 per cent. average share in 2017 and as a source of tourism, with 22,3 per cent. of tourists arriving in Portugal from the United Kingdom in January – December 2017<sup>1</sup>.

Regardless of the outlines of the United Kingdom's exit from the European Union, it is not possible to determine the impact of the United Kingdom's departure from the European Union and/or any related matters may have on the Issuer and on the Programme. Furthermore, the process of the United Kingdom departing from the European Union may introduce significant new uncertainties and instability in the financial markets, as well as political instability in Europe, and it may also materially affect the economies of countries, including Portugal, which have political and economic ties with the United Kingdom.

Given the current uncertainties and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and no assurance can be given that such matters would not adversely affect the Issuer and/or its ability to satisfy its obligations, including under the Public Sector Bonds.

### **Euro-zone debt crisis**

The possibility of another sovereign default, the continuing high levels of public and private debt in several Member States and the uncertainty regarding the robustness of the European financial sector could lead to market turbulence and instability, which could negatively impact the Bank's activity. Additional risks to the stability of the European Union could arise from the negotiations in connection with the United Kingdom's exit from the European Union and from the growing electoral weight of anti-European and Eurosceptic political parties in several Member States, including Italy, where the general elections of early 2018 led to the formation of a government supported by two anti-establishment political parties that may challenge the European fiscal rules or put in jeopardy European-wide policies in the areas of immigration or foreign affairs, from which might stem risks to the stability and even the integrity of the European Union. If any or

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<sup>1</sup> Source: Portugal's National Statistics Institute (INE), July 2018

all these risks were to materialise, it could result in severe pressure on the conditions and financing costs of Portuguese banks (particularly regarding deposits) and asset depreciation, with a significant impact on the net interest margin and results of the Bank, credit impairments and mark-to-market valuation of financial assets.

Moreover, the mere existence of a risk to the integrity of the European Union or the Economic and Monetary Union might lead the Bank's customers to reallocate their savings towards other countries that are perceived to be fundamentally more stable than Portugal, thereby posing additional pressure on the financing costs of Portuguese banks and thus adversely affecting the net interest margin and the results of the Bank. Any of the foregoing could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Finally, the completion of the Asset Quality Review in the European banking system and the progress in the Banking Union, including the launch of the Single Supervisory Mechanism and of the Single Resolution Mechanism, also gave more resilience to the monetary union architecture. In this field it is worth mentioning that the Banking Union is still uncompleted, namely the mechanisms for banking resolution as well as the deposit guarantee scheme, given the absence of a more integrated risk and burden sharing among Eurozone peers, situation that may pose some challenges in case some disruptive event occurs.

Additionally, the banking sector is stronger and healthier than in the past but continues to face high levels of non-performing loans (“**NPLs**”), especially in the peripheral countries, situation that hinders further significant progress regarding the completion of the Banking Union. Nevertheless, the respective ratios are declining on a sustainable way, namely in Italy where total NPL ratio fell to 10,2 per cent. in June 2018 from 16,5 per cent. in the 2015<sup>2</sup>. In Portugal, the restructuring of the sector is advancing, with the biggest bank – Caixa Geral de Depósitos – being recapitalized and the sale of Novo Banco being concluded. Additionally, Novo Banco, Caixa Geral de Depósitos and Millennium BCP agreed to create a platform to tackle unproductive credit. The current market perception towards the Portuguese banking system is now more favourable but some worries regarding non-productive assets remain, as the NPL ratio stands high: 11,3 per cent. in September 2018 (17,5 per cent. in 2015)<sup>3</sup>.

In a hypothetical scenario of huge financial instability in the international financial markets, a more disruptive framework might return and create difficulties in the access of peripheral markets institutions to the international capital markets, especially given the incomplete nature of the European Banking Union and the lack of a properly capitalized mechanism within the EMU framework, that would provide help at the country level, in a crises scenario. In the case of Portugal, the eligibility of public debt to participate in the Public Sector Purchase Programme (“**PSPP**”) depends on maintaining an investment grade rating, which is currently assigned by all the credit rating agencies recognized by the ECB, DBRS Ratings Limited (“**DBRS**”), Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), Fitch Ratings Limited (“**Fitch**”) and Moody’s Investors Service Ltd (“**Moody’s**”).

In the event of negative developments in the financial markets, the Issuer’s ability to access the capital markets and obtain funding to support its business activities on acceptable terms may be adversely affected. A lack of ability to refinance assets on the balance sheet or maintain appropriate levels of capital to protect against deteriorations in their value could force the Issuer to liquidate assets held at depressed prices or on

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<sup>2</sup> Source: “Non-performing loans: the market, the rules and a stronger system” - Speech by the Deputy Director General for Financial Supervision and Regulation at the Bank of Italy, Rome 9 October 2018

<sup>3</sup> Source: Banco de Portugal, Sistema bancário português, 3º trimestre 2018.



unfavourable terms.

An eventual deterioration of the financial and economic environment is a source of challenges for the Issuer, and may adversely affect its business, financial conditions and results of operations in the following ways:

- Since the economic and financial crisis of 2007-2008, whose consequences have been aggravated by the European sovereign debt crisis in 2010-2012, the business was affected notably through higher funding costs, both wholesale and retail, and by the depreciation of its shares price and asset values. In case of further deteriorations on market conditions, the Issuer will be affected. Any worsening of the current economic climate could jeopardise the Issuer's strategy and adversely affect its profitability;
- The decline in interest rates in the developed reference markets, including the euro, with negative interest rates registered in the whole spectrum of the yield curve (negative Euribor rates) constitutes also a challenge for the Issuer;
- The Issuer is exposed to potential losses if certain financial institutions, or other counterparties to the Issuer, become insolvent or are not able to meet their financial obligations to the Issuer;
- Numerous banks worldwide have been and are being supported in part by various "rescue plans" and other types of support by their home country governments or are perceived to have huge amounts of capitalisation needs. The Issuer is uncertain as to how much longer governmental support will be needed to keep these banks solvent and whether governments will have the means or the political will to continue this support. Any failure of government support to continue could result in more bank failures and heightened lack of confidence in the global banking system, thus increasing the challenges faced by the Issuer and other financial institutions.

### **Economic and financial situation in Portugal may impact the condition, business and results of the Issuer**

The economic and financial crisis in Portugal, specifically the developments that have been on the basis of the Economic and Financial Assistance Programme (*Programa de Assistência Económica e Financeira*, the "PAEF") by the Troika in the period 2011-2014, have affected negatively the Issuer's financial condition, business and results of operations and any further deterioration of the economic conditions may further affect the Issuer.

Since a substantial part of the Issuer's activities is performed in Portugal, the Issuer depends on the developments in the Portuguese economy, which in turn is affected by the developments of the economic and financial situation in the Eurozone.

After steady economic growth during the years of 1995 – 2000, the Portuguese economy registered a small and unbalanced expansion in the first decade of the 21st century, mainly driven by domestic demand while several imbalances emerged, namely as far as the external situation and debt levels are concerned. As a consequence of the international financial crisis and consequent great recession, the Portuguese economic framework deteriorated and by 2009 Portugal's GDP contracted by 3 per cent.<sup>4</sup> The economy recovered in 2010, but the intensification of the euro sovereign debt crisis exposed the domestic vulnerabilities, particularly the lack of external competitiveness reflected in high debt across private and public sectors and

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<sup>4</sup> Source: INE data

external financing needs, imbalances that urged to be corrected in order to achieve a more sustainable growth path.

The Portuguese economy registered a contraction of 6,8 per cent.<sup>5</sup>, from the end of 2010 to 2013, during the period of external financial assistance. Domestic demand has been particularly affected, having dropped 14,3 per cent. in this period with emphasis to investment whose contraction was particularly abrupt, above 30 per cent. Private consumption has also receded, about 10 per cent., reflecting the fall in disposable income and the deterioration seen in the labour market. Indeed, in the same period, unemployment reached historical highs, at 17,5 per cent.<sup>6</sup> in the first quarter of 2013. The economy returned to growth in the second half of 2013 whereas unemployment fell despite remaining high compared with the historical pattern.

The economy started to recover in mid-2013 and gradually accelerated its pace of expansion in the following years, reaching 2,8 per cent. in 2017, the highest pace of growth in more than a decade. Besides competitiveness gains and structural reforms implemented in the years of external intervention, this performance benefited from strong growth of the external partners, as well as tailwinds in the form of low interest rates, low oil prices and the depreciation of the currency. The labour market improved steadily in this period: the unemployment rate stood at 6,7 per cent. in Q3 2018<sup>7</sup>, supporting domestic demand, in particular private consumption. Near term growth prospects keep favourable, as the domestic economy should continue to benefit from past reforms. However, the expected deceleration of external demand as well as less expansionary monetary policy suggests a deceleration of GDP from 2,1 per cent. estimated for 2018 to slightly less than 2 per cent in 2019 (Banco de Portugal anticipates 1,9 per cent.)<sup>8</sup>.

Despite the favourable positive scenario – growth close to 2 per cent, comparing to almost stagnation since 2000 – there are several obstacles and risks to consider that may cause economic growth to disappoint. Apart from external factors that may have a negative impact on growth – sudden increase in interest rates, return of risk aversion, instability in international financial markets, stronger than expected deceleration of external demand – internally the stock of capital continues at low levels. Hence, for the present positive momentum to be sustained it would be necessary a continuous increase in investment, in particular in machinery and equipment, and the reinforcement of human capital (the qualifications of the labour force continue to compare adversely with European peers), in order to boost productivity and increase potential growth. The eventual failure of this process will dictate the country's probable vulnerability once the global economic cycle turns and will jeopardize the process of convergence towards core EMU countries' standards of living. Additionally, domestic demand continues to be hindered by structural factors, related to high debt level at the private and public sectors. The external openness degree has been gradually increasing, which is by itself positive on a long term prospective given the small dimension of the Portuguese economy vis a vis its peers. Nevertheless, a greater exports intensity also increases the sensibility to external shocks which could arise if external demand disappoints, or if financial instability returns due to faster than expected pace of tightening by the U.S. Federal Reserve, due to an eventual lack of support from the ECB (tapering effect), or eventually by the intensification of geopolitical risks. All these are potentially adverse developments that would impact negatively the economic activity, eventually pressuring financing costs for domestic agents and putting at stake some of the improvements already achieved, with unfavourable consequences for the Issuer.

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<sup>5</sup> Source: INE data.

<sup>6</sup> Source: INE data.

<sup>7</sup> Source: INE.

<sup>8</sup> Source: Banco de Portugal, Boletim Económico, Dez 2018.

Portugal has successfully restored market access, issuing annually between €15 billion to €20 billion long term debt in the period 2014-2018 through syndications and auctions<sup>9</sup>, excluding debt exchanges. In 2019, total issue of *Obrigações do Tesouro* (“OT’s”) is expected to reach €15.4 billion, according to the Treasury financing programme. These issues have met strong demand by foreign investors reflecting the optimism regarding domestic fundamentals. A new issue of €4 billion in debt by Portugal through syndication was concluded in January 2019 representing circa 30 per cent of the financing expected in the year. Given the significant decrease in funding costs, Portugal obtained authorization to make several early repayments of the IMF assistance loan. By the end of 2018, Portugal repaid the remainder of the loan to IMF; we recall that it represented circa 1/3 of the total financial assistance package, circa 26 bn euros, with comparatively higher cost and lower maturities than the remainder of the package<sup>10</sup>.

The ECB PSPP has been one of the main supports for the Portuguese sovereign bond market in recent years, promoting declining financing costs for the State. By the end of 2018, the ECB held more than 10 per cent of public debt outstanding – considering non-consolidated debt (official creditors held circa 23 per cent), an amount which is similar to the weight of retail debt (*Certificados do Aforro, Certificados do Tesouro* and *OTRV’s*)<sup>11</sup>. Central bank intervention is expected to be cautiously scaled down (the monetary authority will keep its holdings of government deb steady, reinvesting issues maturing), avoiding pressures on sovereign risk premia evaluation. However, any disturbance in this process, or a bad management of the central bank communication might have consequences on financial stability, adding pressure to Portuguese financing costs. In this regard, the scheduled replacement of the ECB President, in October 2019, as well as eventual renewed doubts concerning the fiscal consolidation process in Italy, can also cause some disturbances.

Additionally, there are also domestic factors that may induce further deterioration in the Portuguese sovereign risk perception. In particular, despite of the significant progresses achieved in the fiscal front and the decline seen in debt ratios, the government does not have significant leeway to deal with an eventual negative shock on the economy given the higher rigidity of public expenditure, in particular as far as staff costs are concerned. According to the State Budget 2019, fiscal deficit should have reached 0,7 per cent of GDP in 2018 whilst the public debt ratio declined to 121,3 per cent.<sup>12</sup>, circa 4 p.p. below 2017 level. Furthermore, the Government plans to continue to diminish the fiscal deficit, to 0,2 per cent in 2019, while the public debt to GDP ratio is projected to decline to 118,5 per cent.<sup>13</sup>. Those are ambitious targets, especially considering the ongoing economic deceleration and possible pressures on expenditures related with the general elections, scheduled for next October. Additionally, this scenario is subject to several risks, including the fact that fiscal consolidation is being achieved mostly via the increase in fiscal revenues (through economic growth and labour market improvements), the containment of interest costs and also the restraint in public investment. Indeed, some recent policies have contributed to add some rigidity to current expenditure (especially through personnel expenditure and pension allowances) on a longer term perspective, hindering the leeway to activate counter-cyclical fiscal policy options in case of negative shocks.

Failure to achieve a sustained growth standard or to proceed with fiscal consolidation would negatively impact the sovereign’s risk perception. Additionally, any further deterioration of global economic

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<sup>9</sup> Source: Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E. (“IGCP”).

<sup>10</sup> Source: IGCP.

<sup>11</sup> Source: BPI research calculations using data from IGCP – Boletim Mensal, and Bank of Portugal – Boletim Estatístico or BPSStat.

<sup>12</sup> Source: Source: Bank of Portugal

<sup>13</sup> Source: Ministry of Finance, State Budget 2019

conditions, including the return of strong instability to international financial markets, adverse changes in the credit risk of other countries in the EU, problems related to the solvency of Portuguese or international banks or changes in the Eurozone's scenario, may lead to additional concerns relating to Portugal's economy and state financing. Furthermore, in case global risk perceptions worsen substantially, the structural imbalances that persist – visible on high debt levels both at public and private sector level and on negative net foreign assets position, one of the worst among developed countries (circa -102,8 per cent. of GDP<sup>14</sup> in Q3 2018) – would highlight the still high vulnerability of the Portuguese economy and be reflected on the deterioration of the risk premia. Thus, the mentioned uncertainties had and may continue to have a significant impact in the Issuer's financial condition, business and results of operations.

Regarding the banking system, the regulatory regime in force established that credit institutions and investment firms should preserve a common equity tier 1 (“CET1”) capital ratio not below 7 per cent.. According to the Bank of Portugal, the CET1 ratio reached 13,5 per cent. for the Portuguese banking system in the Q3 2018, down from 13,9 per cent.<sup>15</sup> registered in December 2017. The banking system is adjusting but continues to operate in a difficult environment. Balance-sheet challenges persist largely on account of the heavily indebted corporate sector. Even though weak credit fundamentals, in combination with extremely low interest rates on mortgage portfolios and declining lending volumes, continue to constrain the performance of the sector, there are signs of improving profitability based on the reduction of provisions and operational costs. Developments relating to Portugal's banking system include the recapitalization programme of CGD (Caixa Geral de Depósitos, S.A.), a bank totally held by the State, through a public capital injection of €2.5 billion and the issuance of 0.93 billion debt taken by private investors. The public capital injection and €0.5 billion of the private debt issue were concluded in March 2017. Additionally, in October 2017 the US equity fund Lone Star signed the agreement to acquire 75 per cent of Novo Banco, concluding a 3 year long process with success and adding to the current more benign perception on the Portuguese banking system. Despite the Novo Banco completed sale, there are still eventual contingent costs for the public sector, as the Resolution Fund kept a position of 25 per cent of the bank and eventual legacy costs might arise, with potential costs for the public sector. Eventual major negative surprises in this front would be negatively reflected both in the sovereign risk premia as well as on the banking sector perceptions abroad, with an eventual negative impact for the Issuer.

Between 2011 and 2012 the rating classification of the Republic's sovereign debt suffered several downgrades and was classified as sub-investment asset by all rating agencies with the exception of DBRS rating agency, a Toronto based rating provider, also recognized by the ECB as far as collateral eligibility is concerned. However, since 2017 the sovereign rating classification by major credit agencies has been gradually upgraded in line with the better fundamentals of the Portuguese economy and in 2018 all the major agencies classifications returned to investment grade. Current ratings of the Portuguese Republic are as follows: S&P: BBB, upgraded from BBB- as of 15 March 2019, with a stable outlook; Moody's: Baa3, upgraded from Ba1 as of 12 October 2018, with a stable outlook; Fitch: BBB as of 15 December 2017, with a stable outlook as of 15 December 2017 and reaffirmed as of 30 November 2018 with a stable outlook; and DBRS: BBB as of 20 April 2018, with stable outlook and reaffirmed as of 12 October 2018, with a stable outlook. Further increases in the sovereign's classification should be contingent on the prolonging of a sustained and healthy growth path as well as on additional structural improvements, namely as far as the

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<sup>14</sup> Source: Bank of Portugal – data available in BPStat.

<sup>15</sup> Source: Bank of Portugal “Sistema Bancário Português: desenvolvimentos recentes- 2º trimestre 2018”

major imbalances are concerned. On the contrary, in case of much weaker economic growth, changes in the fiscal policy stance, or a retracement on the banking system situation the positive trends seen in the sovereign's risk classification might change and eventually reverse, undermining the basis for the positive outlook or eventually even causing downgrades<sup>16</sup>.

Current economic conditions in Portugal entail the containment in the demand for credit and for financial products and services in the markets in general. Alongside with financial assets quality deterioration, these may have an adverse effect on the financial condition and results of the Issuer.

### **Banking Markets and Competition faced by the Issuer**

Structural changes in the Portuguese economy over the past several years have significantly increased competition in the Portuguese banking sector.

The Issuer faces intense competition in all of its areas of operation (including, among others, banking, investment banking, specialised credit and asset management). The competitors of the Issuer in the Portuguese market are Portuguese commercial banks, savings and investment banks and foreign banks that entered the Portuguese market. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share. According to data collected from APB – Portuguese Banking Association, currently, the Portuguese financial system is quite concentrated. In 2017, the five largest banks controlled 84,6 per cent. of total assets, and the two largest, 46,6 per cent.. The principal competitors of the Issuer in the banking sector (ranking in terms of assets as of 31 December 2017) are Caixa Geral de Depósitos, the Millennium BCP group, the Novo Banco and the Santander/Totta group.

Although the Issuer believes that it is in a strong position to continue to compete in the Portuguese market, there is no assurance that it will be able to compete effectively in some or all segments in which it operates, or that it will be able to maintain or increase the level of its results of operations.

Additionally, the business, earnings and financial condition of the Issuer have been affected by the crisis in the global financial markets and the global economic outlook. The earnings and financial condition of the Issuer have been, and their respective future earnings and financial condition are likely to continue to be, affected by depressed asset valuations resulting from poor market conditions. The actual or perceived failure or worsening credit of other financial institutions and counterparties could adversely affect the Issuer.

### **The Issuer's exposure to adverse political, governmental or economic developments related to its international equity holdings**

Since 2014, when the oil price started a prolonged decline from levels above 100 \$/barrel, the Angolan economy suffered strong adjustments, which are apparent in the decline of its GDP, or total imports (measured in US dollars): respectively circa 30 per cent. and 50 per cent.<sup>17</sup>. After the national elections of August 2017, the economy entered a renewed adjustment phase under the administration of the new President, João Lourenço. The government intends to diversify the economy and reduce the dependence on the oil sector, promoting foreign direct investment, improving the institutions governance, fostering the environment for doing business, reducing bureaucracy and red tape; some examples are the changes in the Competition Law, the announced changes in the Private Investment Law or the simplification of tourist visas, among others. On the economic front, the government enacted an economic stabilization programme,

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<sup>16</sup> Source: Bloomberg data

<sup>17</sup> Source: International Monetary Fund, "IMF"

which entailed among others, changes in the foreign exchange policy, more strict rules for the banking system and the enacting of an external assistance programme with the IMF, among others.

The developments in the oil sector keep conditioning the economic activity in Angola, as oil still represents close to 97 per cent. of total exports<sup>18</sup> and 74 per cent. of the Executive's tax revenues<sup>19</sup>, emphasizing the need to accelerate the diversification process. After years of exceedingly low oil prices in 2016 and 2017, there was a recovery to levels close to USD 70 in 2018, higher than the 2018 State Budget assumption of USD 50. However, on average, according to data collected from the Angolan Ministry of Finance, oil production recorded a 9,9 per cent. decrease in 2018, in comparison to 2017, reaching 1.46 mbd in 2018 (1.62 mbd in 2017), partially compensating the positive boost on revenue coming from oil prices. The decrease in oil production was due to the underinvestment seen in the sector in the previous years and the fact that some oil fields were reaching maturity. So, it will be important to analyse how the Angolan oil output is going to evolve during 2019, considering past restrictions in production, the restraints in production imposed under the OPEC agreement and the implementation of some new projects that will come on stream.

According to the last information published by the Government, the budget deficit should have improved to +0,6 per cent. of GDP in 2018, from -6,3 per cent. of GDP in 2017. In 2018, fiscal revenues increased in comparison to the previous year, especially due to oil taxes. In fact, the increase in oil price should have contributed to the 93 per cent. rise in oil taxes in 2018. For 2019, the Government is expecting an improvement of the overall fiscal balance to +1,5 per cent. of GDP in line with the IMF's estimate (+1,3 per cent.). In the 2019 Budget, the Executive assumes the level for oil prices at USD 68 for 2019 and expects that oil production will increase to 1.57 mbd. Considering the past deviations between the assumption for oil production and the observed value, it is important to consider the possibility that oil production may not reach the official target (1.57 mbd) in 2019. Additionally, it is also important to analyse how the oil price will evolve in the international markets: if prices record similar values to the ones seen since the beginning of this year, oil revenues would stay below the projections. Angola reached an agreement with the IMF for a 3-years financing program (USD 3.8 billion), with conditionality, and one of the focus will be the fiscal policy, especially, the diversification of non-oil revenues (adoption of VAT in July 2019), eliminating subsidies and clearing domestic arrears. The agreement with the IMF is positive for the transparency of the public accounts and the measures imposed by the Fund should contribute for an improvement of fiscal environment. However, there are some risks, including the eventual negative impact on economic activity, given the heavy reliance of the economy on public investment and public sector activity. Additionally, the IMF also highlights other risks for the public accounts, especially contingent costs associated to state-owned enterprises (including Sonangol - Sociedade Nacional de Combustíveis de Angola), the possibility of weak developments in the oil sector (lower production and/or price), more restrictive global financial conditions, resistance to reforms, shocks to the debt trajectory and adverse developments in the domestic financial sector.

Recent years of systematic public deficits, in a context of lower oil prices and feeble economic growth, and, more recently, the depreciation of the domestic currency, led to a substantial increase in the public debt ratio. In fact, the IMF estimated an increase to 91 per cent. of GDP in 2018, from 39,8 per cent. in 2014<sup>20</sup>. This evolution was mainly due to the external debt, boosted by financing agreements with other countries

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<sup>18</sup> Source: Angolan National Statistics Office, "INE"

<sup>19</sup> Source: Ministry of Finance of Angola

<sup>20</sup> Source: IMF Country Report, December 2018

and the depreciation of the kwanza against the dollar. One of the most relevant conditions of the agreement with the IMF includes a gradual fiscal consolidation with the aim of achieving a sustainable debt ratio; the goal is to reach 65 per cent. of GDP in 2023. However, according to the IMF, it is expected that total debt service will continue at high levels, around 81,5 per cent. of fiscal revenues per year during the program. Angolan public debt will continue vulnerable to the economic growth outlook, oil prices and contingent liabilities. Additionally, another source of risk is related to the debt denominated or indexed to foreign currency, which will continue exposed to the currency risk.

The exchange rate was kept artificially constant against the dollar since April 2016 to the end of 2017, despite the pressures coming from falling reserves and a challenging current account deficit. The new Government, that took power after August 2017 elections, announced the aim to reduce the gap between the so-called informal exchange rate (by end 2017 the kwanza traded close to 400 against the USD<sup>21</sup>) and the official rate. Hence, in January 2018, the monetary local authority (Banco Nacional de Angola, “BNA”) announced the adoption of a floating exchange rate regime (controlled), and the currency devalued circa 47 per cent against the euro, the new reference for Angola and the central bank, in 2018. It is expected that the adjustment continues in 2019, although at a more gradual pace, in line with the goal to diminish the gap between the parallel and official exchange rate to levels around 25 per cent. (in the previous year, the gap stood at around 36 per cent.). Although this policy is considered the wisest given the present imbalances in the macroeconomic front, it cannot be excluded adverse developments in the future, with potential negative impacts for the Issuer’s results.

Growth outlook is still grim: according to the Angolan INE’s figures, the economy contracted 2,8 per cent. in the first three quarters of 2018, due to the decline seen in the oil sector (-8,7 per cent. in this period). For 2019, the Government anticipates a 2,8 per cent. growth rate; the oil sector should increase 3,0 per cent., while the non-oil sector should reach a 2,6 per cent. expansion rate. This scenario seems optimistic given present levels of the oil price and considering the constraints for oil production, (official targets are USD 68 and 1.57 mbd, respectively). Going forward, diversification is expected to accelerate and growth should be probably driven by the non-oil part of the economy; in fact, one of the ambitious of the IMF agreement is to improve the business environment, which might incentivize the private non-oil sector.

Having said this, the largest negative risk to Angola is connected to developments in the oil sector, including the unfavourable evolution of Brent prices in the international markets. Moreover, other negative risks are not negligible, especially the ones related to the more adverse international macro financial context, as well as some risks related to the Angolan financial sector. A potential deterioration of the scenario includes the possibility that access to financing is restricted in the international financial markets (less probable given the IMF program), situation that might imperil the Issuer’s capacity to generate value from the Angolan market.

Regarding the external accounts, according to data released by BNA, the goods balance improved 39 per cent. in 2017, valued in US\$, relative to 2016, as the rise in exports (25 per cent.) surpassed the increase in imports (11 per cent.) – the performance of exports was fully supported by the oil price increase in 2017, as volume of oil exported dropped 6 per cent.. For the first three quarters of 2018, exports rose 25 per cent. in comparison to the same period of 2017 (measured in USD), while imports dropped by 6 per cent. year over year (“y-o-y”); the trade balance improved almost 44 per cent. in this period of analysis. The favorable evolution of the trade balance should contribute to a surplus of the current account in 2018; in fact, in the first two quarters of 2018, the current account recorded a USD 5.2 billion surplus, equivalent to 10 per cent.

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<sup>21</sup> Source: Site Kinguila Hoje

of GDP (in the same period of 2017, the current account recorded a 1.7 billion deficit). Despite the positive numbers, it is also important to highlight the heavy dependence of external accounts on the oil exports (97 per cent of total exports).

<b>Economic Indicators and Forecasts</b>								
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018P</b>	<b>2019F</b>
Real Gross Domestic Product growth (yoy, %)	5.2	6.8	4.8	3.0	-2.5	-0.1	-1.1	2.8
Oil Sector	4.3	-0.9	-2.6	6.5	-2.7	-5.2	-6.9	3.0
Non-oil sector	5.6	10.9	8.2	1.6	-2.2	3.1	1.0	2.6
Oil production (million barrels/day)	1.72	1.73	1.63	1.76	1.72	1.62	1.46	1.57
Price of Angolan oil (average, USD/barrel)	111.0	107.5	100.8	51.4	40.6	52.6	70.7	68.0
Consumer Price Index (yoy change, end-of-period)	9.0	7.7	7.5	14.3	42.0	26.2	18.2	15.0
Fiscal Balance (% GDP)	6.7	0.3	-6.6	-3.3	-3.8	-6.3	0.6	1.5
Non-oil Primary Fiscal Balance (% GDP)	-55.5	-48.3	-44.6	-21.9	-12.6	-16.2	-13.0	-13.8
Gross International Reserves (million of USD, end of period)	32,155	32,213	27,739	24,419	24,353	18,059	16,638	17,513
Average exchange rate (USD/AOA)	95.3	96.5	98.3	108.3	165.7	165.9	252.4	352.0

Source: INE, BNA, Ministry of Finance, IMF (country report, December 2018), BPI calc..

Note: P - preliminar; F - Forecast

According to BNA data, net foreign reserves continued to decrease during 2018, standing at USD 11.1 billion in December 2018, a 17 per cent. drop in comparison to December 2017. The context of lower oil prices (in comparison to 2011-14), the increase of frequency of Foreign Exchange auctions to decrease arrears, and the continuous pressure coming from the demand for foreign exchange to import goods and services (given Angola's high dependence from imports to meet domestic demand needs) explain this unfavourable evolution of international reserves.

Given the adverse external framework since mid-2014, due to the deep fall in oil prices, BNA took a pre-emptive restrictive stance as far as the monetary policy is concerned in an attempt to counter external accounts pressure as well as the upward trend in inflation. Accordingly, BNA raised its benchmark rate by 900 b.p. since 2015, to 18 per cent. at the end 2017. During 2018, the central bank shaved the reference rate once, by 150 basis points to 16,5 per cent. in an attempt to stimulate the economy. However, going forward the central bank should keep a restrictive monetary stance, in line with the IMF program, with the aim of controlling the negative effects on inflation rate coming from the depreciation of the currency and adjustments in utilities and fuels prices. According to the Angolan national statistics office (INE), annual inflation reached an average of 32,2 per cent. in 2017, and 20,3 per cent in 2018. Despite the depreciation of the kwanza, inflation recorded a descending trend as the pass-through effect was compensated by the significant weakness of domestic demand. This downward trajectory should continue, although more gradually, over the next years, but the inflation rate should remain at double-digit levels in the middle run. As of November 2018, total lending to the economy<sup>22</sup> registered a 16 per cent. y-o-y increase, reflecting a 9 per cent. y-o-y rise in credit to the private sector. At the same time, total deposits recorded a 17 per cent. increase until November, with a significant increase in deposits denominated in foreign currency (48 per cent. y-o-y).

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

<sup>22</sup> Source: Banco Nacional de Angola.



## BFA and BCI contribution

In M.€	2017	2018
<b>[1.] BFA contribution</b>	<b>(119.5)</b>	<b>73.2</b>
Of which,		
Impact from the sale of 2% of BFA and deconsolidation	(211.6)	
Impact from BFA reclassification		(138.6)
<b>[2.] BCI contribution</b>	<b>8.1</b>	<b>20.5</b>
<b>[3.] Other</b>	<b>(2.1)</b>	<b>0.6</b>
<b>[4.] Total</b> [=1+2+3]	<b>(113.5)</b>	<b>94.4</b>

- BFA's contribution of 73.2 M.€ in 2018 includes the negative impact of -139 M.€ resulting from the change of the accounting classification of the investment in BFA, from "associated company", consolidated by the equity method, to financial investment, recorded under "investments at fair value through other comprehensive income".
- No impact on consolidated capital ratios

Source: Issuer's 2018 results presentation (unaudited)

The Issuer's international equity holdings are exposed to the risk of adverse political, governmental or economic developments in the countries in which it operates. These factors could have a material adverse effect on the Issuer's financial condition, business and its results of operations.

### **The Issuer is subject to compliance risk with existing and future regulations, the breach of which can cause damages to the Issuer**

The Issuer operates in a highly regulated industry and its banking activities are subject to extensive regulation by, among others, the ECB, the Bank of Portugal, the European Banking Authority ("EBA"), the European Securities and Markets Authority ("ESMA"), the European Insurance and Occupational Pensions Authority ("EIOPA"), the CMVM and the Insurance and Pensions Funds Supervisory Authority ("ASF"), as well as other supervisory authorities, from the EU and the countries in which the Issuer conducts its activities. Such regulations relate to liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Those regulations are complex and its fulfilment entails high costs as regards time spending and other resources. Additionally, non-compliance with the applicable regulations may cause damages to the Issuer's reputation, application of penalties and even loss of authorization to carry out its activities.

The financial market tensions and increasing difficulties in the transmission mechanism of the central banking system for the Euro ("Eurosystem") monetary policy have created the need for the establishment of integrated supervision in the euro area (the Single Supervisory Mechanism) as a first step towards a banking union and the materialisation of a true economic and monetary union. The Banking Union should rely – in the long term – on three complementary pillars: the Single Supervisory Mechanism, the Single Resolution Mechanism and the European Deposit Insurance Scheme. The Council Regulation (EU) No. 1024/2013, of 15 October 2013, established the Single Supervisory Mechanism composed of the ECB and competent national authorities (NCAs) of participating Member States. The Single Supervisory Mechanism is further regulated by Regulation (EU) No. 468/2014, of the ECB, of 16 April 2014. The ECB will be

responsible for the prudential supervision of credit institutions in the euro area, with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the EU and each Member State, with full regard and duty of care for the unity and integrity of the internal market. The Regulation (EU) No. 806/2014, of the European Parliament and of the Council, of 15 July 2014, established uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism (comprised of the Single Resolution Board and the national resolution authorities) and a Single Resolution Fund. The Single Resolution Mechanism of banks will contribute to the resolution of institutions without affecting systemic stability and the financial situation of the countries where they operate. A proposal for a Regulation of the European Parliament and of the Council amending the Regulation (EU) No. 806/2014 in order to establish an European Deposit Insurance Scheme is currently under discussion at a EU level. A common system of deposit protection will help reduce the likelihood of potential deposit runs, which, in a contagion situation, would rapidly constrain banking liquidity. These three pillars of the Banking Union are based on the assumption that a single prudential rulebook will be maintained, which may be more flexible for macro-prudential policy purposes, under the European Union coordination.

Article 45 of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**EU Crisis Management Directive**”, the “**BRRD**” or the “**Bank Recovery and Resolution Directive**”) provides that Member States shall ensure that institutions meet, at all times, a minimum requirement for own funds and eligible liabilities (known as “**MREL**”). The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The EBA was in charge of drafting regulatory technical standards on the criteria for determining MREL (the “**MREL RTS**”), which was set up in the Commission Delegated Regulation (EU) 2016/1450, of 23 May 2016, with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities (the “**Delegated Regulation**”).

The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by non-EU law, they must be able to be written-down or converted under that law (including through contractual provisions).

The MREL requirement was scheduled to come into force by January 2016. However, the EBA has recognised the impact which this requirement may have on banks’ funding structures and costs. Therefore, it has proposed a long phase-in period of 48 months (four years) until 2020.

If the resolution authority finds that there could exist any obstacles to resolvability by the Issuer, a higher MREL requirement could be imposed. Any failure by the Issuer to comply with its MREL may have a material adverse effect on the Issuer’s business, financial conditions and results of operations.

As part of the EU banking reforms, the EC published on 23 November 2016 a proposal for a Directive of the European Parliament and the Council on amendments to the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy (the “**MREL Proposal**”). The MREL Proposal aimed at harmonising national laws on recovery and resolution of credit institutions and investment firms, in particular as regards their loss-absorbency and recapitalisation capacity in resolution and proposes the creation of a new asset class of “non-preferred” senior debt that should only be bailed-in after other capital instruments but before other senior liabilities. In result of the MREL Proposal, on 27 December 2017,

Directive 2017/2399/EU of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy was published in the Official Journal. This Directive should have been implemented by Member-States into national legislation by 29 December 2018. As at the date of this Base Prospectus, the Parliamentary Decree 279/XIII, which has been approved by the Portuguese Parliament on 18 February 2019 and implements Directive 2017/2399/EU into Portuguese law, is currently pending the enactment of the President of the Portuguese Republic.

Additionally, as a consequence of the persistence of the financial crisis and the subsequent government intervention, regulation in the financial services sector has increased substantially and is expected to continue to do so, which may include the imposition of higher capital requirements, demanding duties of information and restrictions on certain types of activity or transaction. Also, new regulations may restrict or limit the type or volume of transactions in which the Issuer participates, or that the fees or commissions that the Issuer charges on certain loans or other products must be changed, and consequently any of these events may have a material adverse effect on the Issuer's business, financial condition and the results of its operations.

**The fulfilment of both the current and future capital requirements as set out by the European authorities and by the Bank of Portugal could lead the Issuer's Group to attract additional capital and/or to face adverse consequences**

The own funds requirements represent a measure of the activity risk, notably of the credit risk, market (currency and trading portfolio risks included) and operational risks, which are calculated according to the prudential regulations in force.

Regarding credit risk, the Issuer's Group applies the standard approach to obtain the prudential capital requirements. As to the operational risk, the Issuer's Group uses the basic indicator approach. The capital should not only cover the applicable requirements on current activity (such as the solvability ratio requirements and any other requirements imposed by the supervisory authorities) but also take into account the strategic needs of growth, subject to market conditions (such as the cost of capital and cost of debt) as well as preserve a solid reputation among its customers, shareholders and other stakeholders.

The own funds required to meet those objectives are calculated taking into account the financial statements of the Issuer, pursuant to the applicable law or regulations in force. Basel III Recommendations were enacted as European Union law through the 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 (the "CRD IV") and the Regulation 575/2013 of the European Parliament and of the Council of 26 June establishing new and detailed prudential requirements to be observed by institutions (the "CRR"). The CRR is directly applicable to the Member States since 1 January 2014 and includes provisions regarding, for instance, own funds requirements, minimum capital ratios, liquidity ratios.

Regarding capital ratios, the banks were obliged to a minimum compliance with a gradually increase until 1 January 2019.

Pillar 1 minimum requirements stand at 4,5 per cent. for Core Tier 1, 6 per cent. For Tier 1 and 8 per cent. For total capital ratio.

CRD IV includes general rules and supervision powers, wages, governance and disclosure requirements as well as an introduction of 5 additional capital buffers:

- A capital conservation buffer of 2,5 per cent. of risk-weight assets;
- Countercyclical capital buffer rate between 0 and 2,5 per cent. of Core Tier 1 assets, pursuant

to the conditions to be established by the competent authorities;

- Systemic risk buffer: i) applicable to the institutions with a global systemic importance: between 1 and 3,5 per cent.; ii) applicable to other institutions with a systemic importance: between 0 and 2 per cent.; and iii) macroprudential systemic risk: between 1 and 3 per cent. or between 3 and 5 per cent., depending on the economical conjuncture.

These buffers, apart from the macroprudential systemic risk, were determined to apply gradually from 2016, although the Member States could anticipate this.

The Bank of Portugal, in the exercise of its powers as national macro-prudential authority, has decided that the capital conservation buffer would be phased-in; as of January 2017, the buffer was set at 1,25 per cent., as of January 2018, the buffer is set at 1,875 per cent; and as of January 2019, the buffer is set at 2,5 per cent..

The Bank of Portugal, in the exercise of its powers as national macro-prudential authority, has set the countercyclical buffer rate at 0 per cent. of the total risk exposure amount, which started in 1 January 2016. 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 Bank of Portugal or the ECB (Single Supervisory Mechanism), as applicable. The Bank of Portugal reviews this decision on a quarterly basis. Considering the minimum capital levels already defined on both the CRR and CRD IV, banks shall comply with:

- Minimum CET1 ratio: 7 per cent. (4,5 per cent. base value and an additional 2,5 per cent. of capital conservation buffer);
- Minimum Tier 1 ratio: 8,5 per cent. (6 per cent. base value and an additional 2,5 per cent. capital conservation buffer);
- Total ratio: 10,5 per cent. (8,0 per cent. base value and an additional 2,5 per cent. capital conservation buffer).

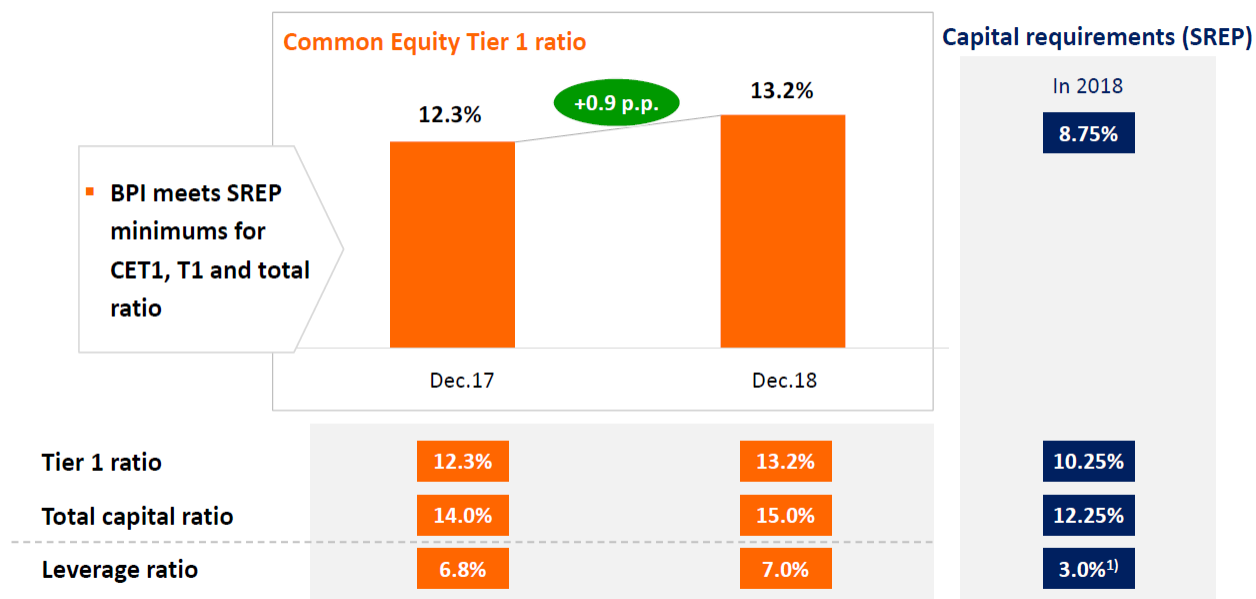
The CRD IV has been transposed in Portugal by Decree-Law no. 157/2014 which has amended several laws and decree-laws, including the General Regime for Credit Institutions and Financial Companies (“**RGICSF**”, enacted by Decree-Law no. 298/92, dated 31 December, as amended from time to time). On 1 January 2014, the adoption of CRD IV was complemented by the entering into force of the Notice 6/2013 of Banco de Portugal, which established how the transitional provisions of the CRR would apply to minimum capital requirements and the respective calculation, and pursuant to CRR, Banco de Portugal has established that banks should permanently ensure the maintenance of a CET1 capital ratio level of at least 7 per cent.. Notice 6/2013 of Banco de Portugal has been revoked by Notice 10/2017 of Banco de Portugal, which regulates the prudential treatment of qualified holdings outside the financial sector when certain limits are exceeded, the percentage applicable for the purposes of calculation of the liquidity outflows corresponding to stable retail deposits, as well as the percentages applicable for the purposes of calculating the deduction from CET 1 capital for deferred tax assets, existing before 1 January 2014, that rely on future profitability.

A five year transitory period was projected in order to adapt the previous applicable rules to the new

regulations.

As of 31 December 2018, Issuer's capital ratios were:

**Consolidated ratios**



<sup>1)</sup> Minimum value in calibration.

Source: Issuer's 2018 results presentation (unaudited)

According to the Supervisory Review and Evaluation Process (SREP) decision for 2019, the following are the minimum capital ratios that BPI has to meet from 1 January 2019:

Capital ratios at 31.12.2018		Minimum capital ratios requirements <sup>(2)</sup>							
Banco BPI consolidated	Fully loaded <sup>(1)</sup>	Phase-in	Of which:			Fully loaded	Of which:		
			Pillar 1	Pillar 2	Buffers <sup>(3)</sup>		Pillar 1	Pillar 2	Buffers <sup>(3)</sup>
<b>CET1</b>	<b>13.2%</b>	<b>9.25%</b>	4.5%	2.0%	2.75%	<b>9.5%</b>	4.5%	2.0%	3.0%
<b>T1</b>	<b>13.2%</b>	<b>10.75%</b>	6.0%	2.0%	2.75%	<b>11.0%</b>	6.0%	2.0%	3.0%
<b>Total ratio</b>	<b>14.9%</b>	<b>12.75%</b>	8.0%	2.0%	2.75%	<b>13.0%</b>	8.0%	2.0%	3.0%

(1) As from the 1st January 2018, Banco BPI calculates the capital ratios as fully loaded only.

(2) The SREP Decision for 2019 only applies to Banco BPI's ratios on a consolidated basis. Thus, from the 1st January 2019, the CET1 requirement on an individual basis is 7.25%, less restrictive than the consolidated one. At 31 December 2018, CET1 fully loaded on an individual basis was 12.8%.

(3) The capital conservation buffer for 2019 is 2.5%, reaching the maximum foreseen for this buffer. The counter-cyclical buffer is kept at 0% for Portugal. The O-SII buffer increases linearly over 4 years starting in 2018 to reach 0.5% by 2021, standing at 0.25% in 2019.

**Changes in the Basel Committee's recommendations, and/or new recommendations, can adversely affect the Issuer**

Recent developments in the banking market have suggested that even stricter rules may be applied by a later framework ("Basel IV"), which is expected to follow Basel III and will require more stringent capital requirements and greater financial disclosure. Basel IV is likely to comprise higher leverage ratios to be met

by the banks, more detailed disclosure of reserves and the use of standardised models, rather than banks' internal models, for the calculation of capital requirements.

The Basel Committee is working on several policy and supervisory measures aimed at enhancing the reliability and comparability of risk-weighted capital ratios. These measures include revised standardised approaches for credit risk and for operational risk, a set of constraints on the use of internal model approaches for credit risk, including exposure-level, model-parameter floors, and a leverage ratio minimum requirement, and aggregate capital floors for banks that use internal models based on the proposed revised standardised approaches.

In 2014, the Basel Committee issued a final regulatory text for a new standardised approach for measuring counterparty credit risk exposures, which is included in the Proposals (as defined below). 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, which is also included in the Proposals. The new standard entails substantial revisions to both the standardised approach and the internal models 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 December 2014, the Basel Committee issued a consultative document on the design of a capital floor framework. The framework would be based on the proposed revised standardised approaches, to limit the risk of capital requirements being too low due to the use of internal models. The new floor framework would replace the current capital floor, based on the Basel I standard, for banks using internal models.

In December 2015, the Basel Committee published its second consultative document on a revised standardised approach for credit risk. The document proposes, among other things, to reduce reliance on external credit ratings, increasing risk sensitivity and reducing national discretions.

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.

The new framework is in the process of being finalised for all relevant workstreams and there is a high degree of uncertainty with regards to the Basel Committee's final calibration of the proposed reforms, and subsequently, how and when these reforms will be implemented in the EU. It is thus too early to draw firm conclusions regarding the impact on future capital requirements.

### **Compliance Risks faced by the Issuer**

The Issuer is subject to rules and regulations related to the prevention of money laundering and terrorism financing. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Issuer believes that its current anti-money laundering and anti-terrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, the Issuer cannot ensure that it will comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole group and applied to its workers in all circumstances. A possible violation, or even any suspicion of a violation of these rules, may have serious reputational, legal and financial consequences, which could have a material and adverse effect on the Issuer's business, financial condition or results of operations.

On 25 May 2018, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 (the “**General Data Protection Regulation**”) entered into force. Being a regulation, it is directly effective in all Member States without the need for the implementation of additional national legislation. The implementation and compliance with this regulation (and any additional national legislation passed in the context of the General Data Protection Regulation) is complex and entails significant costs and time, given that the General Data Protection Regulation introduces substantial and ambitious changes. Additionally, non-compliance with the General Data Protection Regulation may cause reputational damages and the application of very significant fines.

**The creation of a deposit protection system applicable throughout the EU may result in additional costs to the Issuer**

On 2 July 2014, Directive 2014/49/EU providing for the establishment of deposit guarantee schemes (the “**recast DGSD**”) and the harmonization of the deposit guarantee systems throughout the EU entered into force. The recast DGSD introduces harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in pay-out deadlines, harmonisation of eligibility categories (including an extension of scope to cover deposits by most companies regardless of size) and new disclosure requirements and was transposed in Portugal through Law no. 23-A/2015, of 26 March 2015, amended by Law no. 66/2015, of 6 July 2015. The recast DGSD also sets the harmonised coverage level at EUR 100,000 and retains the principle of a harmonised limit per depositor rather than per deposit (such limit to be applied, in principle, to each identifiable depositor, except for collective investment undertakings subject to special protection rules). Each institution's contribution to a deposit guarantee scheme will be based on the amount of covered deposits and the degree of risk incurred by the respective member.

According to the BRRD, and consequently the RGICSF, with the amendments of Law No. 23-A/2015, of 26 March 2015, banks must ensure that by 3 July 2024 the financial resources available to a deposit guarantee scheme amount to a target level of 0,8 per cent. of the amount of Deposit Guarantee Fund covered deposits.

If, after this target level is reached for the first time, the available financial resources are reduced to less than two thirds of the target level, the ex-ante contributions are set by Banco de Portugal at a level that allows the target level to be reached within six years. If the available financial resources are not sufficient to reimburse the depositors, in the event of unavailability of deposits, deposit guarantee scheme members must pay ex-post contributions not exceeding 0,5 per cent. of the Deposit Guarantee Fund covered deposits for the exercise period of the Deposit Guarantee Fund. In exceptional circumstances, the deposit guarantee scheme can request a higher amount of contribution with the approval of Banco de Portugal.

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

Furthermore, a proposal for a Regulation of the European Parliament and of the Council amending the Regulation (EU) No. 806/2014 in order to establish an European Deposit Insurance Scheme (“**EDIS**”) is currently under discussion at a EU level.

The establishment of EDIS is contingent on certain political decisions, in particular as to whether it should

be a system based on the reinsurance between the several national deposit guarantee funds or a mutualisation mechanism at the European level. The decision and implementation processes of the guarantee scheme may have material adverse effects on the Bank's business activity, liquidity, financial condition, results of operations and prospects. As a result of these developments, the Issuer's Group may incur additional costs and liabilities which may adversely affect the Issuer's operating results, financial condition and prospects. The additional indirect costs of the deposit guarantee systems may also be significant, even if they are much lower than the direct contributions to the fund, as in the case of the costs associated with the provision of detailed information to clients about products, as well as compliance with specific regulations on advertising for deposits or other products similar to deposits, thus affecting the activity of the relevant banks and consequently their business activities, financial condition and results of operations.

### **Potential impact of the recovery and resolution measures on BPI's activity**

Decree-Law no. 31-A/2012, of 10 February, 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, Law no. 23-A/2015, of 26 March, and Decree-Law no. 140/2015, of 31 July, which have transposed the BRRD into the Portuguese framework. The provisions of the BRRD aim at harmonizing the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

This new framework provides for, among others, the following features:

- **Preparation and planning stage:** Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the competent authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;
- **Early intervention stage:** When the institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with power to, among others: (a) limit or modify exposure to risk; (b) require additional information; (c) set restrictions or prohibitions on certain activities and changes to group structures; (d) restrict or prohibit the distribution of dividends to shareholders or the payment of interest to holders of additional tier 1 instruments; (e) replace managers or directors; and (f) require credit institutions to transfer assets that constitute an excessive or undesirable risk to the soundness of the institution.
- **Resolution measures:** The resolution measures that may be implemented by the resolution authority, either individually or in conjunction, are:
  - **Sale of business tool:** transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer;
  - **Bridge institution tool:** establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations,



corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party;

- Asset separation tool (to be used only in conjunction with another resolution measure): transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons owned in total or partially by the relevant resolution fund;
- Bail-in tool: write-down or conversion by the resolution authority of certain obligations of an institution under resolution, as defined under the applicable law (other than, for instance, covered deposits and secured obligations, such as Public Sector Bonds). However, to the extent that the Cover Pool is insufficient to meet all claims of the holders of Public Sector Bonds, such holders of Public Sector Bonds will have an unsecured claim over the Issuer for the uncovered claims, thus being subject to bail-in. In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Resolution measures may be applied to institutions if the resolution authority considers that the relevant institution and/or certain other members of the institution's group meet the following conditions (“**Resolution Conditions**”): (a) such institutions and/or certain other members of the respective institution's group are failing or likely to fail, (b) there is no reasonable prospect that such failure will be avoided within a reasonable timeframe by the adoption of any measures by the relevant institutions and/or certain other members of the relevant institution's group, the application of early intervention measures or through the application of a Non-viability Loss Absorption Measure (as defined below), (c) a resolution action pursues any of the public interests listed below and (d) which would not be pursued more effectively by the commencement of winding-up proceedings against the relevant institution:

- ensures the continuity of essential financial services for the economy;
- prevents serious consequences to financial stability, including by preventing contagion between financial entities and maintaining market discipline;
- protects the interests of taxpayers and the public treasury by minimising the use of public funds;
- protects the funds and assets held for and on behalf of clients and related investment services; and
- safeguards the confidence of depositors and investors protected by any applicable depositors and investors compensation schemes.

For the purposes of applying resolution measures, an institution, and/or certain other members of the institution's group, is considered to be failing or likely to fail when either: (a) it is, or is likely in the near future to be, in breach of requirements for maintaining its licence; (b) its assets are, or are likely in the near future to be, less than its liabilities; (c) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (d) it requires extraordinary public financial support, except when, in order to remedy a serious disturbance in the Portuguese economy and preserve financial stability, the extraordinary public

financial support takes the form of: (i) a State guarantee to back facility agreements, including liquidity facilities provided by central banks according to the central banks' conditions and newly issued liabilities; or (ii) a public investment capitalisation transaction, subject to, at the time such public investment is carried out, none of the Resolution Conditions, nor any of the Non-viability Loss Absorption Tool Conditions (as defined below) having to be met by the relevant institution.

Upon the entry into force of Regulation (EU) no. 806/2014 of 15 July 2014 on 1 January 2016, the Bank of Portugal's powers as resolution authority in relation to BPI were transferred to the Single Resolution Board. The implementation of resolution measures is not subject to the prior consent of the credit institution's shareholders, nor that of the contractual parties related to assets, liabilities, off-balance sheet items and assets under management to be sold or transferred.

Finally, pursuant to the RGICSF, prior to the application of a resolution measure, the resolution authority shall engage an independent entity for the purposes of carrying out a valuation of an institution's assets, liabilities and off-balance sheet items. In the application of any resolution measure, the resolution authority shall ensure that an institution's first losses are borne by the respective shareholders, followed by the creditors (save for depositors covered by a deposit guarantee scheme) of an institution, in an equitable manner and in accordance with the order of priority of the various classes of creditors under normal insolvency proceedings.

As regards the bail-in resolution tool, it may be used alone or in combination with other resolution tools where the relevant resolution authority considers that an institution meets the Resolution Conditions and gives such resolution authority the power to write down certain claims of unsecured creditors of a failing institution and/or to convert certain unsecured debt claims into equity, which could also be subject to any future application of the general bail-in tool. In addition to the resolution tools described above, the RGICSF provides for the resolution authorities to have the further power to permanently write-down, or convert into equity (common equity tier 1 instruments), capital instruments such as Tier 2 instruments and Additional Tier 1 capital instruments at the point of non-viability of an institution or such institution's group and before any other resolution action has been taken (the "**Non-viability Loss Absorption Measure**"). Any shares issued upon any such conversion into equity may also be subject to any application of the bail-in tool.

For the purposes of the application of any Non-viability Loss Absorption Measure, the point of non-viability under the RGICSF is the point at which any of the following conditions (the "Non-viability Loss Absorption Tool Conditions") is met:

- the resolution authority determines that an institution or such institution's group meets any of the Resolution Conditions and no resolution measure has been applied yet;
- the resolution authority determines that an institution or such institution's group will no longer be viable unless the relevant capital instruments are written-down or converted; or
- extraordinary public support is required and without such support the institution would no longer be viable.

The powers of the resolution authority set out in the RGICSF following the implementation of the BRRD have an impact on the manner in which institutions are managed as well as, in certain circumstances, on the rights of their creditors.

The exercise of any resolution power under the RGICSF and/or any write down on conversion into equity could, therefore, materially adversely affect the rights of any holders of Public Sector Bonds, the price or value of their investment in the Public Sector Bonds and/or the Issuer's ability to satisfy its obligations under the Public Sector Bonds.

### **Minimum Requirement for own funds and Eligible Liabilities could have a material effect on the Issuer**

In accordance with Article 145-Y of the RGICSF, financial institutions will be required to meet a minimum MREL capable of being bailed in. The requirement will be equal to a percentage of total of liabilities and own fund of the financial institution. The Bank of Portugal, in the exercise of its powers as national macro-prudential authority and having duly notified the ECB, under Article 5 of Council Regulation (EU) No. 1024/2013, of 15 October 2013, which did not object to such decision, and after having also consulted the National Council of Financial Supervisors, under Article 2 (3) (b) of Decree-Law No. 228/2000, of 23 September, as amended from time to time, decided to impose capital buffers to credit institutions identified as systemically important institutions (“O-SIIs”). For that purpose, as set out in the legal and regulatory provisions, the Bank of Portugal published on 29 December 2015 a table with the names of the banking groups identified as O-SIIs in 2015 and the respective capital buffers, as a percentage of the total risk exposure amount. These buffers shall consist of CET1 capital on a consolidated basis and are applicable since 1 January 2017 onwards. In the case of the Issuer the buffer is 0,50 per cent., after the phasing-in period – see below. Simultaneously, the Bank of Portugal also published a more detailed document on the methodology for identification and calibration of the O-SII’s buffer. Later, on 30 November 2016, the Bank of Portugal published a table with the names of the banking groups identified as O-SIIs in 2016 and the respective capital buffers, as a percentage of the total risk exposure amount. These O-SIIs buffers shall consist of CET1 capital on a consolidated basis on the date hereof, are applicable to BPI as follows: from 1 January 2018, 0,125 per cent; from 1 January 2019, 0,25 per cent.; from 1 January 2020, 0,375 per cent.; from 1 January 2021, 0,50 per cent..

The Single Resolution Board has not yet defined the Issuer’s internal MREL requirement, which is expected to occur by the end of 2019 or beginning of 2020.

In order to comply with this ratio, the Issuer may be requested in the future to issue additional liabilities capable of being bailed in.

### **The impact on BPI of the recent resolution measures in Portugal cannot be anticipated**

Following the decision by the Bank of Portugal on 3 August 2014 to apply a resolution measure to Banco Espírito Santo, S.A. (“BES”), most of its business was transferred to a bridge bank, whose corporate designation is “Novo Banco”, created especially for that purpose. The capitalization of “Novo Banco” was ensured by the Resolution Fund.

The Resolution Fund has its own resources as provided for in the RGICSF. Nevertheless, the implementation of the Single Resolution Mechanism had a significant impact in this regard as the initial and periodic contributions from the participating institutions have been (by reference to the date of the implementation of the BRRD in Portugal) and are now fully transferred to the Single Resolution Fund. Therefore, in order to understand what are exactly the resources of the Resolution Fund, the provisions of the RGICSF in this regard must be construed in conjunction with the provisions of the Regulation (EU) No. 806/2014.

In this context, the Resolution Fund can count with the resources arising from the following sources: (a) contributions over 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 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.

In the specific case of the resolution measure relating to BES, the Resolution Fund provided € 4.9 billion to pay up the share capital of "Novo Banco". Of this amount, € 377 million corresponded to the Resolution Fund's own financial resources, resulting from the contributions already paid by the participating institutions, € 3.9 billion corresponded to a loan granted by the Portuguese State to the Resolution Fund which will subsequently be repaid and remunerated by the Resolution Fund and € 700 million corresponded to a banking syndicated loan made to the Resolution Fund, with the contribution of each credit institution depending on various factors, including their size. As of 31 December 2018, the Issuer's share of this loan was € 116.2 million. If only BPI's share of €116.2 million, of the €700 million loan, granted by the credit institutions to the Resolution Fund to capitalise Novo Banco, is considered, BPI's participation would be in the region of 16,6 per cent..

The periodic contributions to the Resolution Fund required from each participating institution shall be determined by applying a contribution rate to an amount corresponding to (i) the average monthly balance of the total liabilities of each participating institution, minus (ii) such institution's own funds and liabilities for deposits covered by the Deposit Guarantee Fund ("Fundo de Garantia de Depósitos"). The applicable contribution rate is determined based on a base rate adjusted to reflect the risk profile, the systemic relevance and the solvency position of each participating institution.

The periodic contribution rate to be applied is set by the Bank of Portugal. For 2014 and 2015, the rate was 0,015 per cent. For 2016, the rate was 0,02 per cent. For 2017, the rate was 0,0291 per cent. For 2018 the rate was 0,0459 per cent. For 2019 the rate will be 0,057 per cent. as defined by Bank of Portugal Instruction no. 32/2018, 19 December.

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 (jointly, 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 Banif – Banco Internacional do Funchal, S.A. ("**Banif**"). A press release confirming the completion of this amendment agreement was also published by the Ministry of Finance on the same date. The agreement reached between the parties to the Loans was designed with the goal of ensuring that the Resolution Fund would be able to fully perform all of its actual or contingent liabilities in connection with the resolutions of BES and Banif, using the ordinary contributions made by the participating institutions and the contribution from the banking sector, thereby avoiding the need for any special contributions.

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 Lone Star. On 18 October 2017, the Bank of Portugal and the Resolution Fund concluded the sale of Novo Banco to Nani Holdings, SGPS, S.A. (a 100 per cent. subsidiary of LSF Nani Investments S.à.r.l), with a share capital increase fully subscribed by Nani Holdings, SGPS, S.A. in the amount of € 750 million, which was followed by a further share capital increase occurred by the end of 2017 in the amount of € 250 million. Nani Holdings, SGPS, S.A. now holds 75 per cent. of Novo Banco's share capital and the Resolution Fund holds 25 per cent. of Novo Banco's share capital.

According to the information contained in the statement of the Bank of Portugal regarding the sale of Novo Banco, which may be consulted at [www.bportugal.pt](http://www.bportugal.pt), and in the European Commission's press release, which may be consulted at [www.europa.eu](http://www.europa.eu), the agreed conditions for the sale of Novo Banco include a contingent capital mechanism, under which the Resolution Fund, as shareholder, undertakes to make capital injections of up to € 3.89 billion in case certain cumulative conditions materialise related to: (i) the performance of an identified set of assets of Novo Banco; and (ii) the evolution of Novo Banco's capitalisation levels. The possible capital injections to be made under this contingent mechanism benefit from a capital buffer resulting from the capital injection to be made under the terms of the transaction and are subject to a maximum absolute limit. On 28 March 2018, the Resolution Fund made a communication on the activation of the contingent mechanism, following the disclosure of the 2017 annual results by Novo Banco, totalling EUR 792 million. On 24 May 2018 the Resolution Fund communicated having disbursed to Novo Banco the abovementioned funds, of which EUR 430 million stemming from a loan from the State and the remaining amount from the Fund's own resources.

On 1 March 2019, the Resolution Fund made a communication on the activation of the contingent mechanism, following the disclosure of the 2018 annual results by Novo Banco, totalling EUR 1.149 million. The payment due in 2019 by the Resolution Fund will be made after the legal certification of Novo Banco's accounts and following a certification procedure, to be carried out by an independent entity, with the objective to confirm that the amount payable by the Resolution Fund has been correctly calculated.

In order to make the payment, the Resolution Fund will use, firstly, the available financial resources, resulting from the contributions paid, directly or indirectly, by the banking sector. These resources will be complemented by the use of a loan agreed with the Portuguese State in October 2017, with the annual ceiling, then set, of 850 million euros.

The loan from the State follows from a general framework agreement celebrated in October 2017 between the Resolution Fund and the State, in which a credit line of up to EUR 1000 million is provided to the Resolution Fund subject to an annual limit of EUR 850 million. The loans mature in 31 December 2046.

According to publicly available information, the volume of litigation associated with the BES resolution process is high. The losses that the Resolution Fund may incur as a result of any such uncertainties (including, inter alia, litigation associated with the sale of Novo Banco and, in particular, the abovementioned contingent capitalisation mechanism) have not been clearly quantified and, therefore, it is not possible as at this date to quantify the impacts that the resolution of BES may have on the Bank. In the event of a shortage of funds, a negative financial impact, of an uncertain nature, on the Resolution Fund and, indirectly, on the Portuguese banking sector, could occur. The definition of the financing structure of a possible shortage (in terms of type of contribution, its distribution in time and any recourse to temporary loans) will depend on the amount of such hypothetical shortage.

In January 2013, Banco Internacional do Funchal, S.A. ("**Banif**") was recapitalised by the Portuguese State in the amount of € 1,100 million (€ 700 million under the form of special shares and € 400 million in hybrid

instruments). This recapitalisation plan also included a capital increase by private investors in the amount of € 450 million, which was concluded in June 2014. Since then, Banif reimbursed the Portuguese State of € 275 million of hybrid instruments, but was not able to reimburse a € 125 million tranche in December 2014.

Banif's sale process was previously initiated, but on 19 December 2015 the Ministry of Finance informed the Bank of Portugal that such voluntary sale was not feasible and thus the sale would have to be made in the context of a resolution procedure, as described below.

On 20 December 2015, the sale of the business of Banif and of most of its assets and liabilities to Banco Santander Totta, S.A. ("**Banco Santander Totta**") for the amount of €150 million was announced. Accordingly, the overall activity of Banif was transferred to Banco Santander Totta except for the assets transferred to an asset management vehicle (Oitante, S.A.) set up in the context of the application by the Bank of Portugal of the aforementioned resolution measure. This transaction involved an estimated public support of €2,255 million to cover future contingencies, of which €489 million was provided by the Resolution Fund (which was financed by a loan in the same amount granted by the Portuguese State (the "**2015 Portuguese State Loan**")) and €1,766 million directly by the Portuguese State, as a result of the determination of the assets and liabilities to be sold as agreed between the Portuguese authorities, European bodies and Banco Santander Totta. As of May 2018, this loan amounts to € 365 million.

As mentioned above, 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 required to fund the Resolution Fund, including BPI. However, given the aforementioned agreement between the State and the Resolution Fund, BPI and the other institutions participating in the Resolution Fund are not expected to be required to make special contributions to the Resolution Fund as a result of any actual or potential liabilities incurred or to be incurred by the Resolution Fund in connection with the resolution measures applied to Banif.

The Resolution Fund has disclosed on its website ([www.fundoderesolucao.pt](http://www.fundoderesolucao.pt)) its annual management report and accounts for the financial year ended on 31 December 2017 ("**Resolution Fund 2017 Accounts**"), from which the information below has been summarised or extracted.

By law, the financing of any eventual losses incurred by the Portuguese Resolution Fund in the pursuit of its statutory purpose is of the exclusive responsibility of the participating institutions. On 31 December 2017, these losses amounted to EUR 5,104 million, corresponding to the Portuguese Resolution Fund's own negative resources, according to the last publicly disclosed information in this regard (see pages 13, 14 and 19 of the Resolution Fund's 2017 Accounts with respect to the Portuguese Resolution Fund's activity, and pages 33, 34 and 35 with respect to its financial statements of the same document). The conditions which led to such reduction of the own resources of the Resolution Fund in 2017 are essentially the following: (1) contributions received by the Resolution Fund from the banking sector in the total amount of EUR 219 million; (2) the financial effects arising of the resolution measures which the net total amount allocated for 2017 ascended to EUR -459 million, resulting from the combined effect of the provision of EUR 792 million related to the contingent funding mechanism concluded with Novo Banco and the valuation in EUR 333 million of the holding after completion of the sale of said bank; (3) the costs related to the funding of the Resolution Fund with a total value of EUR 104 million which is reflected in the net result for the financial year (see page 14 of the Resolution Fund's 2017 Accounts).

It should further be noted that, as at 31 December 2017, the Portuguese Resolution Fund was involved in several legal proceedings, either as a defendant or as an interested counterparty. In particular, the resolution measure applied to BES, in the form of a transfer of the majority of its activity and assets to a bridge bank

(Novo Banco), can be identified as the main underlying cause of the increasing number of judicial lawsuits against the Portuguese Resolution Fund. It should be noted that lawsuits regarding the application of resolution measures are legally unprecedented, which makes it impossible to apply related case-law in their assessment and to estimate the possible associated contingent financial effect (see page 50, note 25 of the Resolution Fund 2017 Accounts).

On 30 March 2016, the Memorandum of Understanding on the Dialogue Procedure with Unqualified Investors which are Holders of Commercial Paper of the Espírito Santo Group (*Memorando de Entendimento sobre um Procedimento de Diálogo com os Investidores não Qualificados Titulares de Papel Comercial do Grupo Espírito Santo*) was signed between the Portuguese Government, the Bank of Portugal, the CMVM, BES and AIPEC - Associação de Indignados e Enganados do Papel Comercial. The work developed in the context of this dialogue procedure resulted in a solution framework which implies the express renunciation, by those investors in agreement, of all rights, claims and legal proceedings against the Portuguese Resolution Fund, and against Novo Banco S.A. and its future shareholders. This solution is currently at the final stage of implementation. All regulatory approvals were granted, the funding of the first tranche was ensured and the granting of the State guarantee was authorised bearing in mind the following payment instalments. This solution will contribute to reduce possible legal contingencies that may affect the Resolution Fund as it is expected a high level of acceptance by the investors (see page 51, note 25.2 of the Resolution Fund 2017 Accounts).

In accordance with the law, the Portuguese Resolution Fund shall pay compensation to the shareholders and to the creditors of a credit institution subject to a resolution measure in the event that it is determined that they have borne losses superior to those they would have borne had the resolution measure not been applied and had the credit institution subject to resolution entered into liquidation at the moment this measure was applied. Furthermore, in accordance with the law, the Bank of Portugal has designated an independent entity for the purposes of carrying out an estimate of the credit recovery levels of each class of creditors of BES in the hypothetical scenario of liquidation on 3 August 2014, had the resolution measure not been applied. As announced in a Bank of Portugal statement published on 6 July 2016, given the independent character of the designated entity, the contents of its report and respective conclusions do not necessarily correspond to the opinion or position of the Bank of Portugal. This statement also presents a summary of the results of the independent estimate carried out by the designated entity, and clarifies that BES' secured and privileged credits were transferred to Novo Banco under the terms of the resolution measure established by the Bank of Portugal. The right to compensation by the Portuguese Resolution Fund, with respect to the ordinary creditors whose credits were not transferred to Novo Banco, will only be decided at the close of BES' process of liquidation. Until then, it will still be necessary to further clarify a complex set of legal and operational questions, notably concerning entitlement to the right to compensation by the Portuguese Resolution Fund. As such and all things considered, it is impossible for the time being to estimate the compensation amount to be paid upon termination of the BES liquidation. The Portuguese Resolution Fund considers that there are still insufficient elements to assess the existence and/or value of this potential liability, both in terms of the resolution measure applied to BES and the resolution measure applied to Banif (see pages 51 and 52, note 26.2 of the Resolution Fund 2017 Accounts).

On 29 December 2015, the Bank of Portugal clarified that the Portuguese Resolution Fund is responsible for neutralising, by way of payment of compensation to Novo Banco, any possible negative effects of future decisions arising from the resolution procedure, and which result in liabilities or contingencies for the bank. Said contingent and liabilities framework has not changed with the sale of Novo Banco, completed on 18 October 2017. The agreements relating to such sale have specific clauses to ensure that the Portuguese

Resolution Fund is responsible for neutralizing any possible negative effects of future decisions arising from the resolution procedure, as previously clarified by the Bank of Portugal. Considering the lack of judicial precedent in this regard, it is impossible to reliably estimate the potential contingent financial effect (see page 52, note 26.3 of the Resolution Fund 2017 Accounts).

As mentioned above, the sale of Novo Banco included the aforementioned contingent capital mechanism and the Resolution Fund accepted to retain 25 per cent. of Novo Banco's share capital.

On 28 March 2018, Novo Banco announced the results for financial year 2017 and reported a net loss of 1.4 billion euros. On the same date, the Resolution Fund issued a press release as follows:

“In the context of the share purchase and subscription agreement between the Resolution Fund and Lone Star (as referred above), as at 28 March 2018 the amounts to be paid by the Resolution Fund to Novo Banco in 2018 in respect of the 2017 financial statements amount to 792 million euros. A contingent capital mechanism was set up under which Novo Banco may be compensated up to a maximum of 3.89 billion euros for losses in case specific cumulative conditions are met, related to i) the performance of specific assets of Novo Banco and ii) the evolution of the capital ratios of the bank. The amount now announced by Novo Banco falls within the scope of the obligations of the Resolution Fund and is within the defined limit. The payment due by the Resolution Fund in 2018 will be made after a legal certification of Novo Banco's financial statements and after a verification procedure, from an independent entity, to confirm if the amount to be paid by the Resolution Fund was correctly ascertained.

The Resolution Fund will firstly use the financial resources directly or indirectly received from contributions from the banking sector. The remaining will be provided by a State loan, in the terms agreed in October 2017. The exact amount of that loan is not yet set, but it is estimated that it will not go over 450 million euros, standing below the 850 million euros' annual limit, inscribed in the State Budget.

The payment due by the Resolution Fund is in line with the normal execution of the agreements related to the sale of Novo Banco, as announced about a year ago and will take place in accordance with the proceedings timely established.

So far, the Resolution Fund has disbursed the total amount of 4900 million euros to support the resolution measure applied to Banco Espírito Santo, S.A., corresponding to Novo Banco' capitalization in August 2014. Since then, the Resolution Fund has not carried out any payments related to Novo Banco's capitalization but has however entered a provision for 792 million euros into its 2017 accounts related to the payment due in 2018. In return, the Resolution Fund maintains the participation of 25 per cent. in Novo Banco's equity.”

On 24 May 2018, the Resolution Fund made a payment to Novo Banco in the context of the contingent capital mechanism. On the same date, the Resolution Fund issued a press release as follows:

“The Resolution Fund made the payment to Novo Banco resulting from the application of the contingent capital mechanism agreed in the context of the sale process concluded on 18 October 2017.

The amount paid by the Resolution Fund on this date was €791,694,980.

The Resolution Fund used its own resources, received from the contributions paid, directly or indirectly by the banking sector, supplemented by a State loan in the amount of €430,000,000.

The payment was made after the legal certification of Novo Banco's financial statements and after the necessary verification procedures were concluded, which confirmed that the necessary conditions, that in the terms foreseen in the agreement give rise to the payment, were met, as well as after the exact amount to be paid by the Resolution Fund was confirmed.

This payment is the result of the agreements executed in March 2017.

On the occasion, it was disclosed that the conditions agreed in the context of the partial sale of the Resolution



Fund's participation in Novo Banco include a contingent capital mechanism that determines that the Resolution Fund commits to make payments to Novo Banco, in case certain cumulative conditions are met, these are related to: (i) the performance of specific assets of Novo Banco and (ii) the evolution of the capital ratios of the bank. The amount now paid falls within the scope of the obligations of the Resolution Fund.”. In light of the foregoing, the final impact the resolutions of Banif and/or of BES, as described above, may have on the Issuer cannot be anticipated.

### **Changes to tax legislation and to other laws or regulation can adversely affect the Issuer**

The Issuer might be adversely affected by changes in the tax legislation and other laws or regulations applicable in Portugal, EU, Angola and other countries in which it operates or may operate in the future, as well as by changes of interpretation by the competent tax authorities or courts of legislation and regulation. The measures taken by the Portuguese Government to balance public accounts and to stimulate the economy may result in higher taxes or lower tax benefits. Further changes or difficulties in the interpretation of or compliance with new tax laws and regulations might negatively affect the Issuer's business, financial condition and results of operations.

### **Risks relating to changes in legislation on deferred tax assets could have a material adverse effect on the Issuer**

The CRR – which reflects the international regulatory framework for Banks developed by the Basel Committee in 2010 (the so-called Basel III), in relation to capital requirements and computation of solvency ratios of credit institutions – requires Deferred Tax Assets (DTA) to be deducted from Common Equity Tier 1 capital.

Article 39 of the CRR, however, contains an exception for DTA that do not rely on future profitability, foreseeing that such DTA are not deducted from Common Equity Tier 1 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 the annual financial statements of the institution are formally approved, or in the event of liquidation or insolvency of the institution;
- 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 the supervision on a consolidated basis;
- c) Where the amount of tax credits referred to in point (b) exceeds the tax liabilities referred to in that 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 to Common Equity Tier 1 capital would thus have a special impact on 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 this regard, the Italian and Spanish Governments enacted, in 2011 (Italy) and 2013 (Spain, with retroactive effects to 2011), amendments to national tax law that allow the conversion of DTA into tax credits, with the aim of fulfilling the requirements for non-deductibility of DTA from Common Equity Tier 1 capital of resident credit institutions.

The Portuguese Government approved Law no. 61/2014, of 26 August 2014, as amended from time to time, which implements a similar regime, allowing Corporate Income Taxpayers to convert DTA arising from credit impairment losses and post-employment and long-term employment benefits into tax credits.

This Law foresees that any DTA arising from the abovementioned items, accounted in taxable periods starting on or after 1<sup>st</sup> January 2015, or registered in the taxpayers 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 annual financial statements of the institution 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 conversion of DTA depends, however, on the constitution of a special reserve, equivalent to the amount of the tax credit obtained increase by 10 per cent, as well as on the issuance of warrants to the Portuguese Republic. The tax credits obtained with the conversion of DTAs may be offset against any State taxes on income and on assets payable by the taxpayer or any companies included in the same tax group or in the same group for purposes of prudential consolidation under the CRR.

The amendments to the DTA conversion regime enacted by Law no. 23/2016, of 19 August, establish that the DTA conversion is not applicable to any DTA arisen from the mismatch between the accounting and tax regimes from 1<sup>st</sup> January, 2016 onwards, without precluding its applicability to DTA generated concerning previous fiscal years.

As at 31 December 2018, BPI had in its accounts € 327 million DTA, of which € 19 million related to reported losses and € 308 million related to temporary mismatches. Of these, € 185 million are dependent on future profitability and € 123 million are protected under the Portuguese fiscal regime. An adverse development could result if part of these DTA's are not recovered and consequently impact on the profitability and equity of BPI.

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 to 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). However, at this point, there are no expected changes in the fiscal regime that could negatively affect the calculation of DTA on capital ratios.

### **Risks associated with the implementation of its risk management policies**

Within its normal activity the Issuer is exposed to a number of risks that include market risk, credit risk, country risk, liquidity risk, counterparty risk, operational risk and legal risk. The Issuer has implemented management policies and procedures designed to ensure that each of those risks is duly monitored and controlled.

Although the Issuer has follows what it deems to be the best practices in risk management and mitigation and although it takes into account what it believes to be worst case scenarios in performing its risk calculations, the policies and procedures it employs to identify and manage these risks may not be fully effective.

### **Credit Risk faced by the Issuer**

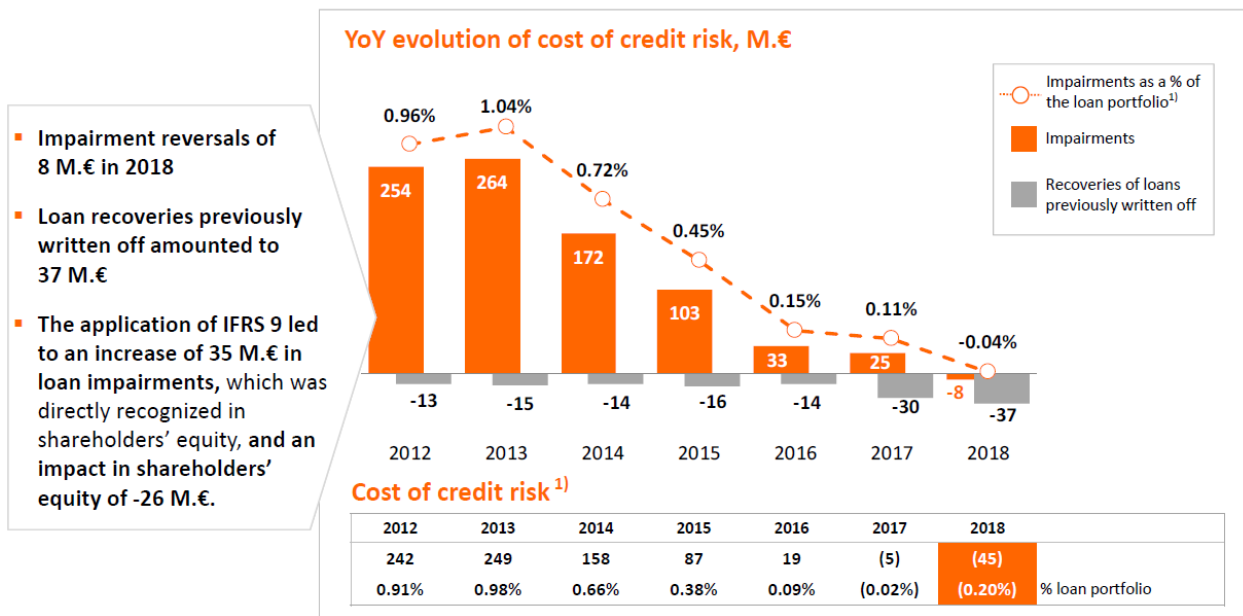
The Issuer faces the risk of its borrowers and counterparties being unable to fulfil their payment obligations. Exposures against limits and counterparties' creditworthiness are monitored to ensure that the risks are at an acceptable level, and collateral is actively demanded from counterparties not fulfilling credit requirements. However, unexpected adverse changes in the credit quality of Issuer' borrowers and counterparties; a general

deterioration in Portuguese or global economic conditions; or increased systemic risks in financial systems, could affect the recovery and value of the Issuer's assets and require an increase of impairment losses on loans and advances to Customers and/or other impairments and provisions. This would have a material adverse effect on the Issuer's financial condition and results.

While the Issuer analyses its exposure to such borrowers and counterparties on a regular basis, as well as its exposure to certain economic sectors and regions which the Issuer believes to be particularly critical, and conducts its credit policy taking these analyses into account, payment defaults may result from circumstances which are unforeseeable or difficult to predict. In addition, the security and collateral provided to the Issuer may eventually prove to be insufficient to cover its exposure, for instance, as a result of sudden unexpected depreciations in the market which dramatically reduce the value of that collateral. As such, in case borrowers or other material counterparties fail to comply with their payment obligations to the Issuer, this would have a material adverse effect on each of the Issuer's financial condition and results of operations. The Issuer is strongly dedicated to the management of credit risks and to the analysis of credit transactions. Credit portfolio management is an ongoing process that requires interaction between the various teams responsible for the management of risk during the consecutive stages of the credit process, with the purpose of improving risk control methodologies, risk assessment and control tools, as well as in procedures and decision circuits.

The Issuer continues to record credit-quality indicators at relatively good levels, having an adequate provision coverage of credit risk.

### Loan impairment reversals of 8 M.€ and recoveries of 37 M.€ in 2018



Source: Issuer's 2018 results presentation (unaudited)



### **Market Risk faced by the Issuer**

The most significant market risks the Issuer faces 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. 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. The Issuer has implemented risk management methods intended to mitigate and control these and other market risks, and exposure to such risks is constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial condition and results of operations.

### **Infrastructure Risk faced by the Issuer**

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

### **Operational Risk faced by the Issuer**

Operational risk represents the risk of losses or of a negative impact on the relationship with clients or other stakeholders resulting from inadequate or negligent application of internal procedures, or from people behaviour, information systems, or external events. Operational risk also includes the business/strategic risk (*i.e.*, the risk of losses through fluctuations in volume, business, earnings, prices or costs).

Legal risk is also included in the above definition. Legal risk represents the risk of losses arising from non-compliance with the regulations in force (due to inadequate document retention, failure to change processes as required by new legislation and/or differences in the interpretation of the law) or resulting from legal action.

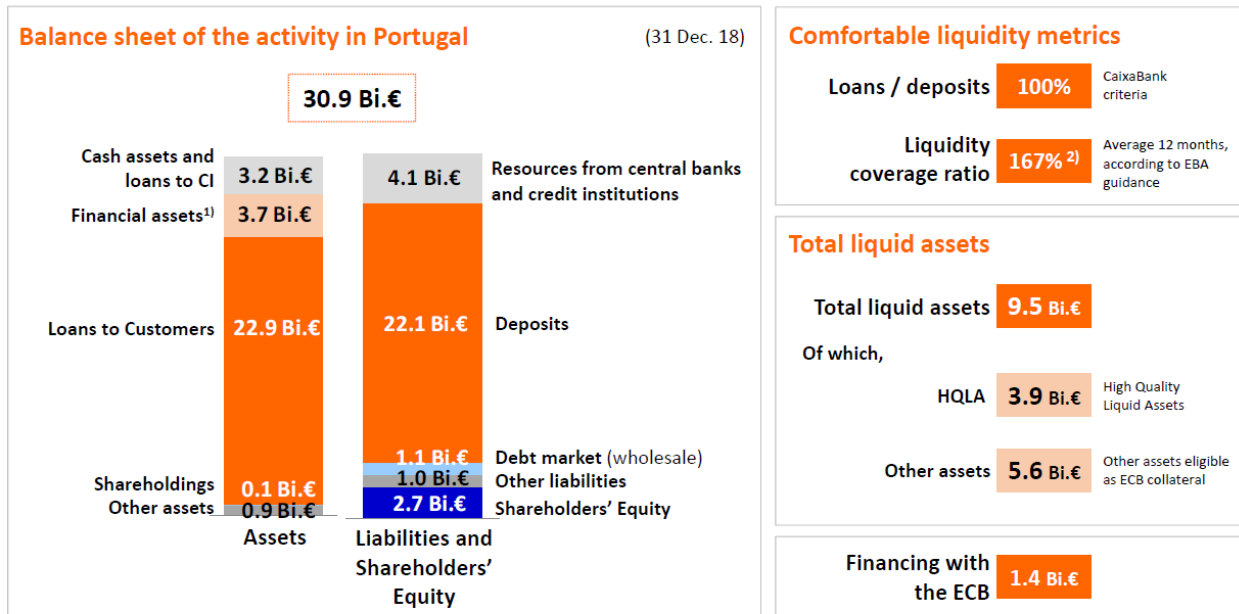
The Issuer's business is dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply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

### **Risks relating with market transactions on the Issuer's own portfolio**

The Issuer performs transactions in the market using its own portfolio, which includes entering into interest rate, credit, equity markets and currency rates derivative instruments, as well as the sale and purchase of bonds and shares issued in the domestic and in the international markets and the participation in transactions in the primary and secondary public capital debt markets.

Transactions on the Issuer's own portfolio involve a certain degree of risk. The future results of such transactions will mainly depend on market conditions, and the Issuer may incur losses which may negatively affect its financial condition and results.

At the end of December 2018:



1) Includes short-term public debt of 0.5 Bi.€ (Portugal), with a residual average maturity of 0.5 years, and medium and long-term debt of 2.6 Bi.€ (Portugal 34%, Spain 40% and Italy 27%) with an average residual maturity of 2.0 years.

2) Average amount (last 12 months) of LCR components calculation: Liquidity Reserves (3 930 M.€); Total net outflows (2 348 M.€).

Source: Issuer's 2018 results presentation (unaudited)

The Issuer has a policy of reviewing the status of its portfolio of available for sale financial assets every quarter, notably as regards the possible recognition of impairments. As a result of this periodical review the Bank may be forced to recognise losses in the income statement in the future.

### Liquidity risk faced by the Issuer

Since the second half of 2007, the wholesale funding markets (including the international debt capital markets) experienced significant disruptions. Such disruptions have resulted in an increase in the cost and a reduction in the availability of wholesale market funding across the financial services sector. The businesses of the Issuer and its respective abilities to access sources of liquidity have been constrained as a result. During this period, the Issuer has continued to manage its respective funding requirements closely. If the wholesale funding markets deteriorate further, it may have a material adverse effect on the liquidity and funding of financial services institutions including the Issuer. There can be no assurance that the wholesale funding markets will not deteriorate further.

Considering the inability to access the market, for short or medium long-term funding, the liquidity operations with the ECB are very important. The ECB establishes the valuation and the eligibility criteria for collateral assets to be used on repo transactions with financial institutions. Changes to these valuations or the eligibility criteria can have a negative impact on the amount of available assets for that purpose, and reduce the liquidity lines available from the ECB.

The rules on asset eligibility for Eurosystem operations were made more flexible, allowing for the creation of portfolios made up of mortgage, corporate loans and consumer credit. As of 31 December 2018, the Issuer

had a portfolio of available assets eligible for obtaining additional funding from the ECB, totalling € 9.5 billion.

The Issuer continuously tracks the evolution of its liquidity, monitoring incoming and outgoing funds in real time. Projections of short and medium term liquidity are carried out in order to help plan the funding strategy in the monetary and capital markets. Total funding obtained by the Issuer from the ECB amounted to € 1.4 billion at the end of December 2018, corresponding entirely to funds raised under the TLTRO (Targeted Longer-term Refinancing Operations). The refinancing needs for medium and long-term debt up till the end of 2021 are fully covered by the redemptions of the bonds portfolio.

The inability of the Issuer, to anticipate and provide for unforeseen decreases or changes in funding sources could have consequences on the Issuer's ability to meet its obligations when they fall due.

As of 31 December 2018 (as per Issuer's 2018 results presentation (unaudited)), the Issuer's Liquidity Coverage Ratio ("LCR") (average 12 months, according to EBA guidance) was 167 per cent. (average amount (last 12 months) of LCR components calculation: Liquidity Reserves (3 930 M.€); Total net outflows (2 348 M.€)). The LCR addresses the sufficiency of high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario and it is calculated in accordance with Delegated Regulation (EU) 2015/61 of the European Commission, of 10 October 2014.

The performance of the financial assets is in general inversely correlated with its liquidity. The fulfilment of those 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 favours the long-term financing over the short-term. These changes may have a negative impact on the Issuer's results.

### **Hedging Risk faced by the Issuer**

The Issuer engages in hedging transactions to reduce its exposure to various types of risks associated with its business. Hedging transactions normally involve taking an offsetting position in a related security or instrument.

Hedging transactions involves financial instruments whose valuation at each moment depends on a number of factors, including interest rates, exchange rates, etc., and are effective as long as the financial instruments represent opposite positions. Even though the Issuer enters into hedging positions in order to mitigate its risk, unexpected market developments may therefore adversely affect the effectiveness of its hedging strategies.

Moreover, the Issuer does not hedge all of its risk exposure in all market environments or against all types of risk. In addition, the manner in which gains and losses resulting from certain ineffective hedges are recorded may result in additional volatility in its reported earnings.

If any of its hedging instruments or strategies is ineffective, the Issuer could incur losses that might result in a material adverse effect on its business, financial condition or results of operations.

### **BPI's activity is subject to reputational risk**

The Issuer, the members of its Board of Directors and Supervisory Board and its employees are subject to extensive regulation, such as mandatory or soft law rules, regulations, contracts, codes of conduct, corporate governance codes and duties of behaviour towards its customers.

Non-compliance with applicable laws, regulations or codes could lead, besides the fines and/or substantial monetary damages, to a serious damage to reputation.

In order to mitigate such risk, the Issuer continuously inspects and evaluates the adequacy of its activities

to the aforementioned. Moreover, each company of the Issuer's Group has available a code of conduct that its members of the Board of Directors and of the Supervisory Board and its employees are committed to respect.

According to the applicable laws and regulations envisaged to impede the utilisation of financial entities in money laundering operations and in activities associated with economic-financial and organised crime, or terrorism financing, the companies of the Issuer's Group have identification mechanisms, internal control and communication systems, as well as human and material resources, in order to prevent such money laundering and terrorism financing operations and provide to their directors and employees proper training for recognising operations which may be related to the aforesaid activities and the persons perpetrating those activities.

The internal regulations of the Issuers' Group companies already comprise most of the applicable legislation and regulations.

The Issuer's Compliance Division is responsible for analysing any occurrence. Without prejudice to the investigations and control actions that the Board of Directors may develop at its own initiative, employees of the Issuer's Group have instructions to inform the Compliance Division about any operation (completed or to be completed) which, due to their amount or characteristics, could reveal any illicit activities.

The Compliance Division is, as stated above, responsible for the analysis of such occurrences and take or implement the adequate measures in order to prevent the Issuer's Group from becoming involved in operations associated with money laundering and funding of terrorism. Also, the Compliance Division is empowered to take any action necessary to comply with all other duties arising from the applicable laws or regulations against organised and economic-financial crime.

Both the Supervisory Board and the Audit and Internal Control Committee are systematically informed about those occurrences and its follow-up.

The Issuer's Group provides training to all employees (immediately after their admission and on a continuous basis pursuant to audits made within the Issuer's Group and also the technical staff forming part of the commercial networks) about prevention of money laundering.

Although the Issuer believes that its current anti-money laundering and anti-terrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, the Issuer cannot ensure that it will comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances, despite of its efforts to provide adequate training.

A possible violation, or even any suspicion of a violation of these rules and any occurrence of money laundering operations and /or activities associated with economic-financial, organised crime or terrorism financing by any of its customers, without a proper approach being taken by the Issuer, may have serious reputational, legal and financial consequences, which could have a material and adverse effect on the Issuer's business, financial condition or results of operations.

### **Regulatory changes can materially affect the Issuer's business, products and services**

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 the European Union and/or in Portugal, could materially affect the Issuer's business, the products and services it offers and/or the value of its assets.

On 16 August 2012, Regulation (EU) No 648/2012 on over-the-counter (OTC) derivatives, central counterparties and trade repositories entered into force ("EMIR"). EMIR introduced a number of



requirements, including clearing obligations for certain classes of OTC derivatives, exchange of initial and variation margin and various reporting and disclosure obligations. Some of the elements of EMIR may lead to changes which may negatively impact the Issuer's Group profit margins, require it to adjust its business practices or increase its costs (including compliance costs).

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 ("MiFIR") and Directive 2014/65/EU ("MiFID II")), introduces a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. MiFID II entered into effect on 3 January 2018 and has been transposed to Portuguese Law by Law 35/2018, of 20 July, which entered into force on 1 August 2018.

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.

If the Issuer's Group financial condition were to deteriorate due to the above mentioned risks, investors in Public Sector Bonds may suffer direct and materially adverse consequences, including non-payment of principal and/or interests due under the Public Sector Bonds.

#### **Exposure to the Issuer's credit risk in case of insufficiency of the assets comprised by the Cover Pool**

The Public Sector Bonds are unsubordinated obligations of the Issuer secured by a special creditor privilege created under the Public Sector Bonds Law over the Cover Pool maintained by the Issuer. In case of insufficiency of the assets comprised by the Cover Pool, the holders of the Public Sector 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 Public Sector Bonds, on the sufficiency of the assets of the Issuer available to common creditors. Accordingly, the holders of Public Sector Bonds will become exposed to the credit risk of the Issuer, in case of insufficiency of the assets comprised by the Cover Pool to meet the obligations of the Issuer under the Public Sector Bonds.

Credit rating agencies regularly assess the Issuer and its credit risk of long-term debt is based on a diverse number of factors, including its financial performance, the rating of the Republic of Portugal, and the conditions affecting the sector in general and the Portuguese banking system in particular.

At the date of this Prospectus, the credit ratings (long term / short term) and Outlook of the Issuer are:

Moody's: Baa2/P-2 with negative outlook. The last revision occurred on 4 December 2018;

S&P: BBB/A-2 with stable outlook. The last revision occurred on 18 March 2019;

Fitch: BBB / F2 with stable outlook. The last revision occurred on 11 October 2018.

On 16 October 2018, Moody's upgraded the following ratings of the Issuer: (1) the long- and short-term deposit ratings to Baa1/Prime-2 from Baa3/Prime-3; (2) the senior unsecured debt ratings to Baa2 from Ba1; and (3) the baseline credit assessment (BCA) and the adjusted BCA to ba1 from ba3 and to baa3 from ba2 respectively. At the same time, the rating agency has also upgraded the following ratings: (1) the subordinated debt ratings to Ba1 from Ba3; (2) the junior subordinated programme ratings to (P)Ba2 from (P)B1; (3) Other short term to (P) Prime-2 from (P) Not prime; (4) its long- and short-term Counterparty Risk Assessment (CRA) to Baa2(cr)/Prime-2(cr) from Baa3(cr)/Prime-3(cr); (5) the Long-term Counterparty Risk Rating to Baa1 from Baa2. The Short-term Counterparty Risk Rating was affirmed at Prime-2. On 4 December 2018, Moody's affirmed the Issuer's long-term deposit ratings at Baa1 and long-term issuer ratings at Baa2. The outlook on the long-term deposit ratings remained stable and the outlook on the long-term issuer rating was changed to negative from stable. The rating action reflects the anticipated

implementation in Portugal of a new legal framework, which would establish full depositor preference over senior unsecured debt instruments in the event of a bank resolution.

On 18 March 2019, S&P upgraded the long-term counterparty credit rating of the Issuer to BBB from BBB- and upgraded the short-term counterparty credit rating to A-2 from 'A-3', with stable outlook.

On 11 October 2018, Fitch upgraded the Issuer's Long-Term Issuer Default Rating (IDR) to BBB from BBB- with a stable outlook and the Short-Term IDR to F2 from F3. At the same time Fitch affirmed the bank's Viability Rating (VR) at bb+.

The current long-term rating assigned to the Issuer by Moody's is one notch above the rating of the Republic of Portugal (Baa3 with stable outlook). In the case of S&P, the rating of the Issuer is at the same level of the Republic of Portugal (BBB with stable outlook). The rating of the Issuer by Fitch is also at the same level of the Republic of Portugal (BBB with stable outlook). To the extent that there are reductions on the rating of the Republic of Portugal by the rating agencies it is likely that they affect bank ratings. Such events may result in the application of higher haircuts to assets eligible for refinancing of banks with the ECB leading to a reduction of the eligible amount of all such assets.

There is no guarantee of maintenance of the current credit ratings assigned to the Issuer. Additional lowering of the credit ratings of the Issuer may have implications on credit ratings of collateralized debt issued by the Issuer which, in turn, can affect the portfolio of assets eligible for funding from the Eurosystem and increase the cost of the Issuer resources.

### **Currency risk in International equity holdings**

International equity holdings are exposed to foreign exchange risk, which is reflected mainly in the statements of income and in the balance sheets of BFA and BCI. It is relevant for these purposes the changes in the exchange rates of local currencies against the euro and in the exchange rate of the U.S. dollar against the euro, due to the high use of the U.S. dollar in these economies, which explains that a significant share of business customer is expressed in U.S. dollars.

Consequently, even if the amount of revenues, costs and profits of the Issuer's Group remain unchanged in local currency, changes in exchange rates may affect the amount of income, costs and profits declared in the statement of income of the Issuer's Group.

The currency exposure of the Issuer results mainly from the banking activity of BFA in Angola, but also, although to a much lesser extent, the activity of BCI in Mozambique. The currency of Angola is the Kwanza, but the high use of the U.S. dollar in the Angolan economy explains that a considerable share of business with clients of BFA is expressed in U.S. dollars.

A substantial portion of revenue and costs are thus expressed in U.S. dollars or indexed to it.

If the value of the euro was to rise significantly against other currencies, especially the U.S. dollar and the Kwanza, the values of equity method consolidated income expressed in these currencies would translate into relatively lower values when converted to euros.

### **Risks of strategy faced by the Issuer**

The Issuer is subject to risks of strategy. Exists the possibility that the Issuer makes strategic decisions whose results may differ significantly from those intended. The strategies adopted reflect decisions made in a given economic environment, market, competition, statutory, regulatory, and others, which includes variables that the Issuer is not able to influence. These strategies can prove to be inadequate to achieve the results envisaged by the Issuer and therefore have a negative impact on BPI.

### **Risk of changes in the organization of partnerships may adversely affect the business and activities of the Issuer's Group**

There are some activities of the Issuer's Group which are partially related to partnerships in various activities with other companies that are not under the control of the Issuer's Group, in particular the activities of bancassurance. These activities depend in part on such partners which the Issuer's Group does not control. A change in any of these partnerships may adversely affect the business and activities of the Issuer's Group. Described below are some of the business relationship established by the Issuer's Group:

Caixabank: the Issuer and Caixabank have a partnership embodied in a range of products and services to support companies operating in the Iberian Peninsula, allowing them to conduct international financial operations identical to those held in its domestic market conditions.

Allianz Group: the Issuer and Allianz Group have a partnership for insurance of real life and risk classes, based on a 35 per cent stake in Allianz Portugal and in the insurance distribution agreement through the commercial network of the Issuer. The Issuer also provides a supply credit insurance for domestic and foreign customers, through a collaboration protocol with COSEC, 50 per cent owned by the Issuer in partnership with Euler Hermes (Allianz Group entity), which holds the remaining 50 per cent.

Unitel: the Issuer in conjunction with Unitel have a strategic partnership with BFA. Unitel holds 51,9 per cent equity of BFA and BPI the remaining 48,1 per cent stake. This partnership aims at the development of banking activity of BFA in Angola. In October 2016, a shareholders' agreement between the Issuer and Unitel was concluded containing, among others, rules on the composition of the governing bodies and on the transfer of shares of BFA.

### **The proceedings used by the Issuer in the identification, monitoring and management of risks may not be totally effective**

As mentioned above, the Issuer may be exposed to other risks or to an unexpected level of risk. Notwithstanding the implementation of extensive procedures regarding the management of risks and types of risk identified by the Issuer and to which it is exposed, the Issuer may not ensure that it will not be affected by the materialisation of risks currently unknown. The Issuer cannot further ensure that, in the event of the occurrence of exceptionally adverse scenarios, the proceedings used by it in the identification, monitoring and management of risks will be totally effective.

### **Other Risks**

As mentioned above, the Issuer may be exposed to other risks or to an unexpected level of risk. Notwithstanding the implementation of extensive procedures regarding the management of risks and types of risk identified by the Issuer and to which it is exposed, the Issuer may not ensure that it will not be affected by the materialisation of risks currently unknown. The Issuer cannot further ensure that, in the event of the occurrence of exceptionally adverse scenarios, the proceedings used by it in the identification, monitoring and management of risks will be totally effective.

## **RISKS SPECIFIC TO THE PUBLIC SECTOR BONDS**

### **Portuguese Public Sector Bonds Legislation has not yet been judicially challenged**

The Public Sector Bonds Law came into effect on 20 March 2006 and the Bank of Portugal Regulations came into effect on 11 October 2006. The protection afforded to the holders of Public Sector Bonds by means of the special creditor privilege on the Cover Pool is based only on the Public Sector Bonds Law and it has not yet been judicially challenged. There is still limited track record for Public Sector Bonds in relation to the operation of the Public Sector Bonds Law.

**Extended Maturity of the Public Sector Bonds will not result in any right of the holders to accelerate payments on those Public Sector Bonds or constitute an event of default for any purpose**

An Extended Maturity Date will, in principle, apply to all Series of the Public Sector Bonds, but may not be applicable if the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is not adversely affected by such non applicability. If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Public Sector Bonds and the Issuer fails to redeem at par all of those Public Sector Bonds in full on the Maturity Date, the maturity of the principal amount outstanding of the Public Sector Bonds will automatically be extended on a monthly basis for up to one year to the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event, the Issuer may redeem at par all or part of the principal amount outstanding of those Public Sector Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event also, the interest payable on the principal amount outstanding of those Public Sector 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 Public Sector Bonds from the Maturity Date up to the Extended Maturity Date will not result in any right of the holders of Public Sector Bonds to accelerate payments on those Public Sector Bonds or constitute an event of default for any purpose and no payment will be due to the holders of Public Sector Bonds in that event other than as set out in the Terms and Conditions (see *Terms and Conditions*) as amended by the applicable Final Terms.

**Benefit of special creditor privilege (“*privilégio creditório especial*”) available not only to the holders of a Series**

The holders of Public Sector 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 comprised in the Cover Pool in relation to the payment of principal and interest on the Public Sector Bonds (See *Characteristics of the Cover Pool*). The Public Sector 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 are or will be exclusively available to meet the claims of the holders of certain Public Sector Bonds ahead of other holders of Public Sector Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

**Risk of conflict of interests**

Because the Agent, which will act as Calculation Agent unless otherwise specified in the applicable Final Terms, will normally be the Issuer a potential conflict of interest may exist between the Agent and the holders of the Public Sector Bonds, including with respect to certain determinations the Agent must make.

**The Public Sector Bonds may not be a suitable investment for all investors.**

Each potential investor in the Public Sector 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 Public Sector Bonds, the merits and risks of investing in the relevant Public Sector 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 Public Sector Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Public Sector Bonds, including Public Sector 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 Public Sector 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.

#### **Administrative cooperation in the field of taxation**

The automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014.

Council Directive 2014/107/EU was transposed to Portuguese national law, on October 2016, by Decree-Law no. 64/2016, of 11 October 2016 ("Portuguese CRS Law"), which amended Decree-Law no. 61/2013, of 10 May 2013, which transposed Directive 2011/16/EU. The Portuguese CRS Law and Decree-Law no. 61/2013, have been amended by Law no. 98/2017, of 24 August 2017.

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.

#### **Public Sector Bonds may be subject to Financial Transactions Tax ("FTT")**

The EC has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes 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 Notes are advised to seek their own professional advice in relation to the FTT.

### **Changes in regulatory US Foreign Account Tax Compliance Withholding can adversely affect Public Sector Bonds**

The Issuer and other non-US financial institutions through which payments on the Notes are made may be required to withhold US tax at a rate of 30 per cent. or at a rate resulting from multiplying 30 per cent. by the positive “passthrough percentage” (as defined in US Foreign Account Tax Compliance Act (“FATCA”)) of the Issuer or of the other non-US financial institutions through which payments on the Notes are made, to the payments made after 31 December 2014 in respect of (i) any Notes issued after 18 March 2012 and (ii) any Notes which are treated as equity for US federal tax purposes, whenever issued, pursuant to the FATCA.

This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (“FFI”) (as defined in FATCA) which enters into and complies with an agreement with the US Internal Revenue Service (“IRS”) to provide certain information on its account holders (a term which includes the holders of its debt or equity interests that are not regularly traded on an established securities market) (making the Issuer a participating FFI), and (ii) (a) an investor does not provide information sufficient for the participating FFI to determine whether the investor is a US person or should otherwise be treated as holding a “United States Account” of the Issuer, or (b) any FFI through which payment on such Notes is made is not a participating FFI.

If an amount in respect of US withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with these rules or as a result of the presence in the payment chain of a non-participating FFI, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less interest or principal than expected. Holders of Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

Portugal has implemented, through Law no. 82-B/2014, of 31 December 2014, the legal framework based on reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. In addition, Portugal has signed the Intergovernmental Agreement (IGA) with the US on 6 August 2015. The IGA has entered into force in 10 August 2016, and through the Decree-Law no. 64/2016, of 11 October 2016, amended by Law no. 98/2017, of 24 August 2017, Portuguese government approved the complementary regulation required to comply with FATCA. Under the referred legislation the Issuer is required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities, which, in turn, will report such information to the IRS. In view of the abovementioned regime, 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 Ministerial Order (*Portaria*) no. 302-A/2016, of 2 December 2016, amended by Ministerial Order (*Portaria*) no. 169/2017, of 25 May 2017.

FATCA is particularly complex and its application may be uncertain in some situations. The above description is based on regulations that may be subject to change.

### **Judicial decision and change of law may impact after the date of issue of the relevant Public Sector Bonds**

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

### **Benchmark regulation**

So-called benchmarks such as the LIBOR, the EURIBOR and other interest rates, equity indices, foreign exchange rates and other types of rates and indices which are deemed to be “benchmarks” (each a “Benchmark” and together, the “Benchmarks”), to which the interest on securities 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 manner of administration of benchmarks to change, the relevant benchmarks to perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted, which may have a material adverse effect on the value of and the amount payable under the Notes.

For example, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “FCA Announcement”). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

International proposals for reform of Benchmarks include the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the “Benchmark Regulation”) which was published in the Official Journal on 29 June 2016 entered into force the following day and into application on 1 January 2018. In addition to the aforementioned regulation, there are numerous other proposals, initiatives and investigations which may impact Benchmarks.

The Benchmark Regulation will apply to “contributors”, “administrators” and “users” of “benchmarks” in the EU, and will, among other things, (i) require benchmark administrators to be authorised (or, if non-EU-based, to have satisfied certain “equivalence” conditions in its local jurisdiction, to be “recognised” by the competent authority of the applicable Member State pending an equivalence decision or to be “endorsed” for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of “benchmarks” and (ii) ban the use of “benchmarks” of unauthorised administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called “critical benchmark” rates and indices such as LIBOR and EURIBOR, will apply to many other interest rates, as well as equity indices and foreign exchange rates and other rates and indices (including “proprietary” indices or strategies) which are referenced in certain financial instruments (securities or OTC derivatives listed on an EU regulated market,

EU multilateral trading facility (MTF), EU organised trading facility (OTF) or “systematic internaliser”), certain financial contracts and investment funds.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives, could have a material adverse effect on the costs of refinancing a Benchmark or the costs and risks of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain Benchmarks, trigger changes in the rules or methodologies used in certain Benchmarks or lead to the disappearance of certain Benchmarks, which may impact the value of and the amount payable under the Notes as compared to the situation where such factors would be absent.

### **The lack of a profitable secondary market**

Public Sector Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Public Sector Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Public Sector Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. These types of Public Sector Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Public Sector Bonds.

### **Market Price Risk**

The development of market prices of the Public Sector Bonds depends on various factors, such as changes of market interest rate levels, the policy of central banks, overall economic developments, inflation rates or the lack of or excess demand for the Public Sector Bonds. An investor in the Public Sector Bonds is therefore exposed to the risk of an unfavourable development of market prices of its Public Sector Bonds which materialises if the investor sells the Public Sector Bonds prior to the final maturity of such Public Sector Bonds. If an investor decides to hold the Public Sector Bonds until final maturity the Public Sector Bonds will be redeemed at the amount set out in the relevant Final Terms.

### **Interest Rate Risks**

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

### **Public Sector Credit ratings may not reflect all risks**

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

In general, European regulated investors are restricted under the Regulation (EC) No. 1060/2009 (as amended from time to time, the “**CRA Regulation**”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), 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 will be disclosed in the Final Terms.

### **Legal investment considerations may restrict certain investments**

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

### **Other Risks**

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

The Public Sector Bonds may fall as well as rise in value.

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

Where Public Sector 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 Public Sector Bonds.

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

## **RISKS SPECIFIC TO THE COVER POOL**

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

The Cover Pool may contain credit assets over the central administrations, regional or local authorities of any EU Member State as well as receivables benefiting from an express and legally binding guarantee issued by any of such entities, other eligible assets, substitution assets and hedging contracts, in all cases subject to the limitations provided for in the Public Sector Bonds Law and the Bank of Portugal Regulations. The Public Sector Bonds Law permits the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the composition of the Cover Pool will change from time to time in accordance with the Public Sector Bonds Law - See "*The Public Sector Bonds Law*".

### **The inclusion in the Cover Pool of other eligible assets and Hedging Contracts under the Public Sector Bonds Law**

The Public Sector Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Public Sector Bonds Law and Bank of Portugal

Regulations. The aggregate amount of other eligible assets cannot exceed 20 per cent. of the total value of the public sector credits and other eligible assets comprised in the Cover Pool. See “Characteristics of the Cover Pool”.

### **The Issuer’s entitlement to enter into Hedging Contracts**

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. At the date of this Base Prospectus it is intended that the Hedging Contracts will hedge the interest rate exposure with respect to the Public Sector Credits comprised in the Cover Pool as well as the interest rate exposure with respect to the Public Sector Bonds. The Issuer is entitled but not required to enter into hedging contracts under the Public Sector Bonds Law, except if the Public Sector Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any exchange rate risk coverage. 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 Public Sector Bonds, as compared to a situation where the opposite decision has been taken by the Issuer.

### **Amortisation of Public Sector Credits**

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

### **Risks related to the structure of a particular issue of Public Sector Bonds**

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

### **Reliance upon Interbolsa procedures and Portuguese law**

Investments in Public Sector Bonds held through Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. (“**Interbolsa**”) will be subject to Interbolsa procedures and Portuguese law with respect to the following:

*(a) Form and Transfer of the Public Sector Bonds*

Public Sector Bonds held through accounts of Interbolsa Participants will be represented in dematerialised book-entry form (“*forma escritural*”) and may be registered Public Sector Bonds (“*nominativas*”).

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

*(b) Payments on Public Sector Bonds*

All payments on Public Sector 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 Interbolsa Participants who hold control accounts on behalf of the holders of Public Sector Bonds and, thereafter, (iii) transferred by the Interbolsa Participants from their accounts to the accounts of their clients (which may include Euroclear Bank and Clearstream, Luxembourg).

The holders of Public Sector Bonds must rely on the procedures of Interbolsa to receive payment under the Public Sector Bonds. The records relating to payments made in respect of beneficial interests in the Public Sector Bonds are maintained by the Interbolsa Participants 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 Public Sector Bonds*

Pursuant to Decree-Law 193/2005, of 7<sup>th</sup> November 2005, as amended from time to time, investment income paid to non-resident holders of Public Sector 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 should also be noted that, if interest and other types of investment income derived from the Public Sector Bonds is paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (*e.g.*, typically “jumbo” accounts) such income will be subject to withholding tax in Portugal at a rate of 35 per cent unless the beneficial owner of the income is disclosed. Failure to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35 per cent.

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable that are domiciled in a country included in the “tax havens” list approved by Ministerial Order No. 150/2004, of 13 February 2011, as amended from time to time, is subject to withholding tax at 35 per cent, which is the final tax on that income.

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, holders of Public Sector Bonds must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Public Sector Bonds.

*(d) Risks related to procedures for collection of investors details*

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 beneficiaries of the Public Sector Bonds of the information required to comply with the procedures and documentation required by Decree-Law 193/2005. Under Decree-Law 193/2005, the obligation of collecting from the holders of Public Sector Bonds proof of their non-Portuguese resident status and of the accomplishment with 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. A summary of those procedures is set out in “Taxation”. Such procedures and documentation 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 Public Sector Bonds are registered by Interbolsa, or by an applicable international clearing system under Decree-Law 193/2005, holders of Public Sector Bonds must rely on and comply with such procedures in order to receive payments under the Public Sector Bonds free of any withholding, if applicable. Holders of Public Sector Bonds must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Public Sector Bonds. None of the Issuer, the Arrangers, the Dealers, the paying agents and the direct registering entities (“*entidades registadoras directas*”), or the clearing systems, their management entities or participants, assume any responsibility in this regard.

## GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular tranche of Public Sector Bonds, the applicable Final Terms.

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

Under this Programme, the Issuer may from time to time issue Public Sector Bonds denominated in any currency agreed between the Issuer and the relevant Dealer, subject as set out herein. The applicable terms of any Public Sector Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of those Public Sector Bonds and will be set out in the Terms and Conditions of the Public Sector Bonds applicable to, the Public Sector Bonds as modified and supplemented by the applicable final terms attached to, or endorsed on, such Public Sector Bonds (the “**Final Terms**”), as more fully described under *Final Terms of the Public Sector Bonds* below.

This Base Prospectus will be valid for a period of 12 months from the date this Base Prospectus is approved by the CMVM (completed by any supplement which may be required under article 142 of the Portuguese Securities Code) for admitting Public Sector Bonds to trading on the regulated market of Euronext Lisbon 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, in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Public Sector Bonds previously or simultaneously issued under the Programme, does not exceed €2,000,000,000 (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 Public Sector Bonds issued under the Programme from time to time:

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

Public Sector Bonds issued under the Programme are expected to be rated on issue by at least one agency which has applied to be registered with the European Securities and Markets Authority under the CRA Regulation.

The rating of Public Sector Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A rating addresses the likelihood that the holders of the Public Sector Bonds will receive timely payments of interest and ultimate repayment of principal at the Maturity Date or the Extended Maturity Date, as applicable.

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 operating in the European Union before 7 June 2010 which has submitted an application for the registration in accordance with the CRA Regulation and such registration was not refused.

Each potential investor in the Public Sector Bonds must determine the suitability of that investment in light to its own circumstances. In particular, each potential investor should (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Public Sector Bonds, the merits and the risks of investing in the relevant Public Sector 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 Public Sector 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 Public Sector Bonds, including Public Sector 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, (iv) understand thoroughly the terms of the relevant Public Sector 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 others factors that may affect its investment and its ability to bear the applicable risks.

## RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of Article 26 of the Prospectus Regulation and Article 135-C of the Portuguese Securities Code, which implemented 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 Public Sector 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 Public Sector Bonds.

The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Directive, the Prospectus Regulation, the Portuguese Securities Code and all remaining laws and regulations applicable thereto.

In accordance with, and for the purposes of, Articles 149, 150 and 243 of the Portuguese Securities Code, the entities and persons referred to below are responsible for the information contained in this Base Prospectus, subject to the qualifications below. The Issuer, the members of the Board of Directors of the Issuer and the members of the Supervisory Board and the Statutory Auditor of the Issuer (see Management, Supervisory Board and Statutory Auditor of the Issuer) are responsible for the information contained in this Base Prospectus and each of them declares, to the best of their knowledge (having taken all reasonable care to ensure that such is the case), that the information contained in this Base Prospectus for which each of them is responsible according to the aforementioned Articles is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Statutory Auditor of the Issuer, Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*) with number 183 and registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, nº 1, 3º, 1069-316 Lisbon, Portugal, has audited and expressed an opinion on the financial statements of the Issuer for the first half year ended on 30 June 2018 and is therefore responsible for the Auditor's Reports on this financial period, which is incorporated by reference in this Base Prospectus (see *Documents Incorporated by Reference* and *General Information*). The previous Statutory Auditor of the Issuer, Deloitte & Associados – SROC, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*") with number 43 and registered with the CMVM with number 20161389, with registered office at Av. Engenheiro Duarte Pacheco, 7, 1070-100 Lisbon, has audited and expressed an opinion on the financial statements of the Issuer for the financial years ended 31 December 2016 and 31 December 2017 and is therefore responsible for the Legal Certification of Accounts and Auditor's Reports on these financial periods, which are incorporated by reference in this Base Prospectus (see *Documents Incorporated by Reference* and *General Information*). In accordance with article 149, no. 3 (directly and *ex vi* article 243) of the Portuguese Securities Code, liability of the entities referred to above is excluded if any such entities proves that the addressee knew or should have known about the inaccuracies in the contents of this Base Prospectus on the date of issue of the contractual declaration or when the respective revocation was still possible. Pursuant to subparagraph b) of article 150, the Issuer is strictly liable (i.e. independently of fault) if any of the members of its Board of Directors, its Supervisory Board, Deloitte & Associados – SROC, S.A., Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda and any other individuals that have certified or, in any other way, verified the accounting documents on which the Base Prospectus is based are held responsible for such information. As per subparagraph b) of article 243 of the Portuguese Securities Code, the right to compensation based on the responsibility for the information contained in the Base Prospectus,

as per article 149, is to be exercised within six months following the knowledge of an inaccuracy in the contents of the Base Prospectus and ceases, in any case, two years following (i) disclosure of the admission Base Prospectus or (ii) amendment that contains the defective information or forecast.

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 Public Sector Bonds should be based on a consideration of this Base Prospectus as a whole, including those documents incorporated by reference.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus or any other information supplied in connection with the Programme or the Public Sector 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.

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 Public Sector Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus to be used in connection with any subsequent issue of Public Sector Bonds.

The Arranger, the Common Representative and the Dealer expressly do not undertake to review the financial condition or affairs of the Issuer during the duration of the Programme or to advise any investor in the Public Sector Bonds of any information which may come to their attention. Investors should review, amongst other things, the financial statements, if any, of the Issuer when deciding whether or not to purchase any Public Sector Bonds.

This Base Prospectus or any Final Terms (as defined below) do not constitute an offer to sell or a solicitation of an offer to buy any securities other than Public Sector Bonds or an offer to sell or a solicitation of any offer to buy any Public Sector Bonds in any circumstance in which such offer or solicitation would not be authorised or would be unlawful. The distribution of this Base Prospectus and the offer or sale of Public Sector Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealer do not represent that this Base Prospectus may be lawfully distributed, or that any Public Sector 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 Dealer (save for application for approval by the CMVM - the competent authority in Portugal for the purposes of the Prospectus Directive and the relevant Portuguese laws - as a base prospectus compliant with the Prospectus Directive and the relevant Portuguese laws) which would permit a public offering of any Public Sector Bonds outside the EEA or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Public Sector 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 Public Sector 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 Public Sector Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Public Sector Bonds in the United States, Japan and the EEA (including the United Kingdom, Italy and Portugal). See *Subscription and Sale and Secondary Market Arrangements*.

The Arranger, the Common Representative and the Dealer have not independently verified the information contained or incorporated in this Base Prospectus. Accordingly, none of the Arranger, the Common Representative or the Dealer makes any representation, warranty or undertaking, to any investor in the Public Sector Bonds, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Base Prospectus, except for the information relating to each of the Arranger, the Common Representative and the Dealer. Neither this Base Prospectus nor any information supplied in connection with the Programme or the Public Sector Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger, the Common Representative or the Dealer that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Public Sector Bonds. Each potential purchaser of Public Sector Bonds should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Public Sector 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 Public Sector Bonds). None of the Arranger, the Common Representative or the Dealer 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 Public Sector Bonds of any information coming to the attention of the Arranger, the Common Representative or the Dealer.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Public Sector 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 Public Sector Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Public Sector Bonds which are the subject of a placement contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Public Sector Bonds may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to the provision of the Portuguese Securities Code which implemented Article 3 of the Prospectus Directive or supplement a prospectus pursuant to the provisions of the Portuguese Securities Code which implemented Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to the provisions of the Portuguese Securities Code which implemented Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Public Sector

Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

Neither the Dealer nor the Issuer makes any representation to any investor in the Public Sector Bonds regarding the legality of its investment under any applicable laws. Any investor in the Public Sector Bonds should be able to bear the economic risk of an investment in the Public Sector 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 lawful currency of the 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 Council Regulation (EC) No. 974/98, of 3 May 1998 on the introduction of the euro, as amended from time to time, to “U.S.\$”, “USD” or “US 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.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CMVM shall be incorporated in, and form part of, this Base Prospectus:

- (a) the Portuguese version of the Issuer's consolidated Annual Report in respect of the financial years ended on 31 December 2016 and on 31 December 2017;
- (b) the Portuguese version of the Issuer's first half 2018 interim consolidated Report;
- (c) the Portuguese version of the results presentation with the consolidated results in respect of 2018 (unaudited results);
- (d) the Portuguese version of the articles of association of the Issuer (available at [www.bancobpi.pt](http://www.bancobpi.pt));
- (e) the Issuer's Investor Presentation disclosed to the market on 27 November 2018.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the CMVM in accordance with article 142 of the Portuguese Securities Code which implemented 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 of the Prospectus Directive, Article 22/7 of the Prospectus Regulation and Article 142 of the Portuguese Securities Code 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 at Rua Tenente Valadim, no. 284, 4100-476 Porto and from the specified offices of the Agent at Rua Tenente Valadim, no. 284, 4100-476 Porto and of the Common Representative at 10 Harewood Avenue, London, England, NW1 6AA, United Kingdom, as well as from the website of the Issuer whose link is [www.bancobpi.pt](http://www.bancobpi.pt).

This Base Prospectus and the documents incorporated by reference can be obtained from the website of the CMVM, being [www.cmvm.pt](http://www.cmvm.pt), except for the articles of association of the Issuer which can be obtained from [www.bancobpi.pt](http://www.bancobpi.pt) and from [www.ir.bpi.pt](http://www.ir.bpi.pt).

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 Public Sector Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus to be used in connection with any subsequent issue of Public Sector Bonds.

The table below refers to points (a), (b) and (c):

<b>BPI</b>	
<b>Information Incorporated by Reference</b>	<b>Reference</b>
<b><u>Results presentation with the unaudited consolidated results for the financial year ended 31 December 2018</u></b>	
Consolidated income statement ( <i>Conta de resultados consolidada</i> )	38
Consolidated balance ( <i>Balanço consolidado</i> )	39
Consolidated profitability and efficiency metrics ( <i>Rendibilidade, eficiência, qualidade do crédito consolidado</i> )	40
<b>Information Incorporated by Reference</b>	<b>Reference</b>
<b><u>First Half 2018 Report</u></b>	
Consolidated Balance Sheets ( <i>Balanços Consolidados em 30 de Junho de 2018 e 31 de Dezembro de 2017</i> )	38
Consolidated Statements of Income ( <i>Demonstrações Consolidadas Intercalares dos resultados para os períodos findos em 30 de Junho de 2018 e 2017 reexpresso</i> )	39
Consolidated Statements of Profit or Loss and other Comprehensive Income ( <i>Demonstrações consolidadas intercalares dos resultados e de outro rendimento integral para os períodos findos em 30 de Junho de 2018 e 2017 reexpresso</i> )	40
Statements of changes in shareholders' equity ( <i>Demonstrações consolidadas intercalares de alterações nos capitais próprios para os períodos findos em 30 de Junho de 2018 e 2017 reexpresso</i> )	41
Consolidated Statements of Cash flows ( <i>Demonstrações consolidadas intercalares dos fluxos de caixa para os períodos findos em 30 de Junho de 2018 e 2017 reexpresso</i> )	42
Notes to the Consolidated Financial Statements ( <i>Demonstrações financeiras consolidadas Intercalares em 30 de Junho de 2018</i> )	43 - 116
Auditors report ( <i>Relatório de auditoria</i> )	118 - 120
<b><u>Annual Report 2017</u></b>	
Consolidated Balance Sheets ( <i>Balanços consolidados em 31 de Dezembro de 2017 e 2016</i> )	116
Consolidated Statements of Income ( <i>Demonstrações consolidadas dos resultados para os exercícios findos em 31 de Dezembro de 2017 e 2016 proforma</i> )	117

Consolidated Statements of Profit or Loss and other Comprehensive Income ( <i>Demonstrações consolidadas dos resultados e de outro rendimento integral para os exercícios findos em 31 de Dezembro de 2017 e 2016 proforma</i> )	118 - 119
Statements of changes in shareholders' equity ( <i>Demonstrações consolidadas de alterações nos capitais próprios para os exercícios findos em 31 de Dezembro de 2017 e 2016 proforma</i> )	120 - 121
Consolidated Statements of Cash flows ( <i>Demonstrações consolidadas dos fluxos de caixa para os exercícios findos em 31 de Dezembro de 2017 e 2016 proforma</i> )	122 - 125
Notes to the Consolidated Financial Statements ( <i>Notas às demonstrações financeiras consolidadas em 31 de Dezembro de 2017 e 2016</i> )	126 - 277
Auditors report ( <i>Certificação Legal de contas e relatório de auditoria</i> )	279 - 290
<b><u>Annual Report 2016</u></b>	
Consolidated Balance Sheets ( <i>Balanços consolidados em 31 de Dezembro de 2016 e 2015</i> )	166
Consolidated Statements of Income ( <i>Demonstrações consolidadas dos resultados para os exercícios findos em 31 de Dezembro de 2016 e 2015 proforma</i> )	167
Consolidated Statements of Profit or Loss and other Comprehensive Income ( <i>Demonstrações consolidadas dos resultados e de outro rendimento integral para os exercícios findos em 31 de Dezembro de 2016 e 2015 proforma</i> )	168
Statements of changes in shareholders' equity ( <i>Demonstrações consolidadas de alterações nos capitais próprios para os exercícios findos em 31 de Dezembro de 2016 e 2015 proforma</i> )	169
Consolidated Statements of Cash flows ( <i>Demonstrações consolidadas dos fluxos de caixa para os exercícios findos em 31 de Dezembro de 2016 e 2015 proforma</i> )	170
Notes to the Consolidated Financial Statements ( <i>Notas às demonstrações financeiras consolidadas em 31 de Dezembro de 2016 e 2015</i> )	171 - 364
Auditors report ( <i>Certificação Legal de contas e relatório de auditoria</i> )	366 - 376

The information incorporated by reference that is not included in the cross-reference lists contained above, is considered as additional information and is not required by the relevant schedules of the Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC, as amended (“Prospectus Regulation”).

## FORM OF THE PUBLIC SECTOR BONDS AND CLEARING SYSTEMS

The Public Sector Bonds will be held through a central securities depository (“CSD”) which will be 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 has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Arranger or the Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of Interbolsa are advised to confirm the continued applicability of its rules, regulations and procedures. None of the Issuer, the Arranger or the Dealer will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, interests in the Public Sector Bonds held through the facilities of Interbolsa or for maintaining, supervising or reviewing any records relating to such interests.

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

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

The Public Sector 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 Public Sector Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

### Public Sector Bonds held through Interbolsa

#### *General*

Interbolsa manages a centralised system (“*sistema centralizado*”) composed by interconnected securities accounts, through which 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 Public Sector 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.

Public Sector Bonds 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., the clearing system operated at Interbolsa, 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 Lisbon takes place on the

second Business Day after the trade date and is provisional until the financial settlement that takes place at the Bank of Portugal on the Final Settlement Date.

#### *Form of the Public Sector Bonds*

The Public Sector Bonds of each Series will be in book-entry form and title to the Public Sector 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 Public Sector Bonds. The Public Sector Bonds will be registered Public Sector Bonds (“*nominativas*”).

The Public Sector 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 Public Sector Bonds. Such control accounts reflect at all times the aggregate of Public Sector Bonds held in the individual securities accounts opened by the holders of the Public Sector 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 being the holder of certain Public Sector Bonds is considered to be the owner of such Public Sector Bonds as recorded therein.

Registering the Public Sector Bonds with Interbolsa does not necessary mean that the Public Sector 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 Public Sector Bonds*

Payment of principal and interest in Euros in respect of the Public Sector Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the Paying Agent (acting on behalf of the Issuer) to the payment current-accounts held in the payment system of the Bank of Portugal by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Public Sector Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Public Sector Bonds or to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Public Sector Bonds, as applicable, 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 Public Sector 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 inform Interbolsa of the bank accounts to which the relevant payments shall be made. Interbolsa must notify the Bank of Portugal of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Interbolsa Participants.

In the case of a partial payment, the amount held in the current account of the Paying Agent with the Bank of Portugal must be apportioned pro-rata across the Public Sector Bonds and therefore credited in the



securities accounts held by the holders of Public Sector Bonds with the Interbolsa Participant. After the financial settlement has been processed, the Bank of Portugal must confirm that fact to Interbolsa.

*Transfer of Public Sector Bonds*

Public Sector 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 Public Sector Bonds. No owner of a Public Sector Bond will be able to transfer such Public Sector Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.

## FINAL TERMS OF THE PUBLIC SECTOR BONDS

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

Final Terms dated [●].

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

The Public Sector Bonds are not intended to be offered, sold or otherwise made available to (and should not be offered, sold or otherwise made available to) any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”) or (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on Insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in Directive 2003/71/EC, on the prospectus to be published when securities are offered to the public or admitted to trading (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Covered Sector Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Public Sector Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>23</sup>

[MIFID II product governance – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Public Sector Bonds has led to the conclusion that: (i) the target market for the Public Sector Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Public Sector Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Public Sector 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 Public Sector Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]<sup>24</sup>

## Banco BPI, S.A.

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

under the €2,000,000,000 Public Sector Bonds Programme

THE PUBLIC SECTOR BONDS (AS DESCRIBED HEREIN) ARE ISSUED IN ACCORDANCE WITH DECREE-LAW NO. 59/2006, OF 20 MARCH 2006 (THE “**PUBLIC SECTOR BONDS LAW**”). THE ISSUER HAS THE CAPACITY TO ISSUE PUBLIC SECTOR

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<sup>23</sup> Legend to be included on front of the Final Terms if the Public Sector Bonds potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

<sup>24</sup> Legend to be included on front of the Final Terms, to outline the product approval process of any applicable manufacturer.

BONDS IN ACCORDANCE WITH THE PUBLIC SECTOR BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE PUBLIC SECTOR BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE PUBLIC SECTOR BONDS LAW.

This document constitutes the Final Terms relating to the issue of Public Sector 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 Public Sector Bonds (the “Terms and Conditions”) set forth in the Base Prospectus dated 19 March 2019 [ , as supplemented on [●]], which constitutes a base prospectus for the purposes of Directive no. 2003/71/EC, of the European Parliament and of the Council of 4 November 2003 (as amended from time to time, the “Prospectus Directive”), Commission Regulation (EC) no. 809/2004 (as amended from time to time, the “Prospectus Regulation”) and Decree-Law no. 486/99, of 13 November 1999 (as amended from time to time, the “Portuguese Securities Code”). The Terms and Conditions are incorporated by reference into in each Public Sector Public Sector described herein, as applicable. This document constitutes the Final Terms of the Public Sector Public Sector described herein for the purposes of Article 135-C.4 of the Portuguese Securities Code, which implemented Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [ , as supplemented]. Full information on the Issuer and the offer of the Public Sector Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus[ , as supplemented]. The Base Prospectus[ , as supplemented,] is available for viewing at Banco BPI, S.A., Rua Tenente Valadim, no. 284, 4100-476 Porto, www.bancobpi.pt and www.cmvm.pt. and copies may be obtained from the same address.*

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

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 142 of the Portuguese Securities Code, which implemented Article 16 of the Prospectus Directive.]*

1. (i) Series Number: [●]  
(ii) [Tranche Number: [●]  
*(If fungible with an existing Series, details of that Series, including the date on which the Public Sector Bonds become fungible.)]*
2. Specified Currency or Currencies: [●]
3. (i) Aggregate Nominal Amount of Public Sector Bonds:  
A. Series: [●]  
B. Tranche: [●]  
(ii) Specify whether Public Sector Bonds to be admitted to trading [Yes (if so, specify each Series/Tranche)/No]
4. (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)] [●] [*an amount equal to: Aggregate Nominal Amount of Public Sector Bonds minus Estimate of total expenses related to admission to trading*]
5. Specified Denominations: [●]  
*(N.B. the minimum denomination of each Public Sector Bond is €100,000)''*
6. (i) Issue Date: [●]  
(ii) [Interest Commencement Date (if different from the Issue Date): [●]]  
*(NB: An Interest Commencement Date will not be relevant for certain Public Sector Bonds, for example Zero Coupon Public Sector Bonds.)*
7. Maturity Date: [*specify date (for Fixed Rate Public Sector Bonds) or (for Floating Rate Public Sector Bonds) Interest Payment Date falling in or nearest to the relevant month and year*]
8. Extended Maturity Date: [Applicable/Not Applicable]  
[insert date] [*If applicable, the date should be that falling one year after the Maturity Date. If not applicable, insert "Not Applicable"*].  
*[Unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such provisions, an Extended Maturity Date will apply to each Series of the Public Sector Bonds.]*
9. Interest Basis:  
(i) Period to (and including) Maturity Date: [[●] per cent. Fixed Rate]  
[[*specify reference rate*] +/- [●] per cent. Floating Rate]  
[Zero Coupon]  
(further particulars specified below)  
(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date: [Not Applicable] /  
[[●] per cent. Fixed Rate]  
[[*specify reference rate*] +/- [●] per cent. Floating Rate]  
(further particulars specified below)  
*[Insert "Not Applicable" only if Extended Maturity Date does not apply]*
10. Redemption/Payment Basis: [Redemption at par]  
[Instalment]
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Public Sector Bonds into another interest or redemption/payment basis*]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. (i) Status of the Public Sector Bonds: The Public Sector Bonds will be direct, unconditional and senior obligations of the Issuer and rank equally with all other public sector bonds issued or to be issued by the Issuer.

The Public Sector Bonds will qualify as public sector bonds for the purposes of the Public Sector Bonds Law.

(ii) [Date [Board] approval for issuance of Public Sector Bonds obtained]: [●]

14. Method of distribution: [Syndicated/Non-syndicated]

15. Listing/Admission to Regulated Market [Euronext Lisbon/specify other/None]

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

16. Fixed Rate Public Sector 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 Public Sector Bonds are Fixed Rate Public Sector Bonds after the Maturity Date.]*

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

- To Maturity Date: [●] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]

- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●] per cent per annum. [payable[annually/semi-annually/quarterly] in arrear]

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

(ii) Interest Payment Date(s):

- To Maturity Date: [[●] in each year up to and including the Maturity Date / [specify other]]

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

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

(iii) Fixed Coupon Amount [(s)]:

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

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

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

(v) Day Count Fraction

- To Maturity Date: [30/360 or Actual/Actual (ICMA) or [specify other]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360 or Actual/Actual (ICMA) or [specify other]
- [State "Not Applicable" unless Extended Maturity Date applies and the Public Sector Bonds are Fixed Rate Public Sector Bonds after the Maturity Date.]

(vi) Determination Date(s):

- To Maturity Date: [Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year
- [State "Not Applicable" unless Extended Maturity Date applies and the Public Sector Bonds are Fixed Rate Public Sector Bonds after the Maturity Date.]

(vii) Other terms relating to the method of calculating interest for Fixed Rate Public Sector Bonds:

[None/give details]

17. Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]

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

- To Maturity Date: [●]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/[●]
- [State "Not Applicable" unless Extended Maturity Date applies and the Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]

(ii) Business Day Convention:

- To Maturity Date: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- From Maturity Date up to Extended Maturity Date: [Not Applicable]/[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)] [State "Not Applicable" unless Extended Maturity Date applies and the Public Sector Bonds are Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:
- To Maturity Date: [Screen Rate Determination/ISDA Determination/other (give details)]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [Screen Rate Determination/ISDA Determination/other (give details)]  
[State “Not Applicable” unless Extended Maturity Date applies and the Public Sector Bonds are Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]
- (vi) Screen Rate Determination:
- a) To Maturity Date:
- Reference Rate: [●]
  - 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 TARGET 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 Telerate page 248 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:
- Reference Rate: [Not Applicable]  
[State “Not Applicable” unless Extended Maturity Date applies and the Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]
  - 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 TARGET 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 Telerate page 248 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 Public Sector Bonds are Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector 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 Public Sector Bonds are Floating Rate Public Sector Bonds after the Maturity Date.]*
- (xi) Day Count Fraction:
- To Maturity Date:
 

[Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]

(see Condition 4 (*Interest*) for alternatives)
  - From Maturity Date up to Extended Maturity Date:
 

[Not Applicable]/  
[Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360



30/360

30E/360

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

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

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

[●]

• To Maturity Date

• From Maturity Date up to Extended Maturity Date:

[Not Applicable]/ [●]

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

18. Zero Coupon Public Sector Bonds Provisions

[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

(i) Accrual Yield:

[●] per cent. per annum

(ii) Reference Price

[●]

(iii) Any other formula/basis of determining amount payable:

[●]

(iv) Day Count Fraction in relation to late payment:

[Condition 5.5 applies/specify other]

(*consider applicable day count fraction if not US dollar denominated*)

## PROVISIONS RELATING TO REDEMPTION

19. 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 Public Sector Bond and method, if any, of calculation of such amount(s):

[●] per Public Sector 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*)

20. 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 Public Sector Bond and method, if any, of calculation of such amount(s): [●] per Public Sector 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)*

21. Final Redemption Amount of each Public Sector Bond [[●] per Public Sector Bond of [●] Specified Denomination/Other/See Appendix]

22. [Early Redemption Amount of each Public Sector Bond payable on an event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6 (*Redemption and Purchase*))] [Applicable/Not Applicable]

#### **GENERAL PROVISIONS APPLICABLE TO THE PUBLIC SECTOR BONDS**

23. (a) Form of Public Sector Bonds: Registered Public Sector Bonds (*nominativas*) in book entry form (*escriturais*)

24. Details relating to Instalment Public Sector Bonds: [Not Applicable/give details]

(i) Instalment Amount(s): [Not Applicable/give details]

(ii) Instalment Date(s):

25. Redenomination applicable: [Applicable/Not Applicable] *(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)*

26. Other final terms: [Not Applicable/give details]

*(When adding on any other final terms consideration should be given as to whether such terms constitute ‘significant new factors’ and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

*[In order for withholding tax not to apply the holders of the Public Sector Bonds must, inter alia, deliver certain tax certifications. See Taxation section.]*

#### **DISTRIBUTION**

27. (i) If syndicated, names of Dealers: [Not Applicable/give names and date of relevant agreement]

(ii) Stabilising Manager (if any): [Not Applicable/give names]

- |  |  |
|--|--|
| (iii) Commission Payable / Selling Concession:   | [●]  |
| 28. If non-syndicated, name of relevant Dealer:  | [Not Applicable/give name and date of relevant agreement]  |
| 29. Additional selling restrictions:             | [Not Applicable/give details ]   |
| 30. Prohibition of Sales to EEA Retail Investors | [Applicable/Not Applicable]<br><i>(if the offer of the Public Sector clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Public Sector Bonds may constitute “packaged products” and no KID will be prepared, “Applicable” should be specified)</i> |

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list the issue of the Public Sector Bonds described herein pursuant to the €2,000,000,000 Public Sector Bonds Programme of Banco BPI, 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 authorised

**PART B – OTHER INFORMATION**

**1. Listing**

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

**2. Ratings**

Ratings:	The Public Sector Bonds to be issued have been rated: [Moody’s: [●]] [[●] (specify): [●]] <i>(The above disclosure should reflect the rating allocated to Public Sector Bonds of the type being</i>
----------	--

*issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

*[[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) no. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]*

*[[Insert credit rating agency] is established in the European Union and is registered under Regulation (EC) no. 1060/2009.]*

*[[Insert credit rating agency] is not established in the European Union and is not registered in accordance with Regulation (EC) no. 1060/2009.]*

*[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) no. 1060/2009. However, the application for registration under Regulation (EC) no. 1060/2009 of [insert the name of the relevant EU CRA affiliate that applied for registration], which is established in the European Union, disclosed the intention to endorse credit ratings of [insert credit rating agency].]*

*[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) no. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [insert the name of the relevant EU-registered credit rating agency] in accordance with Regulation (EC) no. 1060/2009. [Insert the name of the relevant EU-registered credit rating agency] is established in the European Union and registered under Regulation (EC) no. 1060/2009.]*

*[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) no. 1060/2009, but it is certified in accordance with such Regulation.]*

### **3. [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 Public Sector Bonds has an interest material to the offer.” – amend as appropriate if there are other interests]*

**4. Reasons for the Offer, Estimated Net Proceeds (Issue Price minus the fees payable to the Dealer) and Estimated Total Expenses (the total expenses relating to admission to trading and the fees payable to the Dealer)**

[(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

[•]

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

[(iii) Estimated total expenses:

[•]

**5. 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 Public Sector 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 plus 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 the variation of the relevant Reference Rate. The index used to calculate the yield was [•]]*

**6. Operational Information**

ISIN Code:

[•]

Common Code:

[•]

Name(s) and address(es) of additional Paying Agent(s) ( if any):

[•]

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any):

[•]

[Intended to be held in a manner which would allow Eurosystem eligibility:]

[[Yes] [No]

[Note that the designation “yes” simply means that the Public Sector Bonds are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Public Sector Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by

the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected]

Stabilization Operation

[Not Applicable]  
[Applicable]  
[If applicable;  
Stabilising Manager;  
Period;  
Other information]

## TERMS AND CONDITIONS OF THE PUBLIC SECTOR BONDS

*The following are the Terms and Conditions of the Public Sector Bonds.*

*The applicable Final Terms in relation to any Tranche of Public Sector 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 Public Sector Bonds and shall be included in a supplement prepared by the Issuer for such purpose. The applicable Final Terms (or the relevant provisions thereof) will be incorporated by reference or endorsed upon each Public Sector Bond. Reference should be made to ‘Final Terms for Public Sector 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 Public Sector Bonds.*

**THE PUBLIC SECTOR BONDS (AS DEFINED IN THESE TERMS AND CONDITIONS) ARE PUBLIC SECTOR BONDS (“OBRIGAÇÕES SOBRE O SECTOR PÚBLICO”) ISSUED IN ACCORDANCE WITH THE PUBLIC SECTOR BONDS LAW (AS DEFINED). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) IS A CREDIT INSTITUTION WITH THE CAPACITY TO ISSUE PUBLIC SECTOR BONDS PURSUANT TO THE PUBLIC SECTOR BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE PUBLIC SECTOR BONDS LAW ARE SECURED ON THE ASSETS THAT COMPRISE THE COVER POOL (AS DEFINED BELOW) MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE PUBLIC SECTOR BONDS LAW.**

This Public Sector Bonds is one of a Series (as defined below) of public sector bonds issued by Banco BPI, S.A. (the “**Issuer**”) in accordance with the procedures set out in Agency and Payments Procedures (as defined below).

References herein to the Public Sector Bonds shall be references to the Public Sector Bonds of this Series and shall mean the book-entries corresponding to the units of the lowest Specified Denomination in the Specified Currency (as specified in the applicable Final Terms).

The Public Sector 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 19 June 2008, as amended from time to time, and made and agreed by Banco BPI, S.A. (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and/or agent bank.

Any reference to “**holders of Public Sector Bonds**” shall mean the person or entity in whose name the Public Sector Bonds are registered as such in the relevant securities account held with Interbolsa.

As used herein, “**Tranche**” means Public Sector Bonds which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Public Sector Bonds together with any further Tranche or Tranches of Public Sector 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. Copies of the applicable Final Terms are obtainable at the CMVM’s website – [www.cmvm.pt](http://www.cmvm.pt) – and during normal business hours at the specified office of the Paying Agent save that, if these Public Sector Bonds are unlisted, the applicable Final Terms will only be obtainable at the specified office of the Paying Agent by a holder holding one or more unlisted Public Sector Bonds and such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Public Sector Bonds and identity. The Public Sector Bonds holders 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 Public Sector Bonds all the Public Sector Bonds issued other than:

- (a) those Public Sector Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;
- (b) those Public Sector 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 Public Sector Bonds holders in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Public Sector Bonds;
- (c) those Public Sector Bonds which have been purchased and cancelled under these Terms and Conditions;
- (d) those Public Sector Bonds which have become prescribed under these Terms and Conditions; and
- (e) (for the purpose only of ascertaining the principal amount of the Public Sector Bonds outstanding and without prejudice to the status for any other purpose of the relevant Public Sector Bonds) those Public Sector Bonds which are alleged to have been lost or destroyed and in respect of which replacements have been issued under these Terms and Conditions.

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

The Public Sector Bonds are in registered (*nominativas*) form and in the Specified Currency and the Specified Denomination(s), as specified in the applicable Final Term. Public Sector Bonds of one Specified Denomination may not be exchanged for Public Sector Bonds of another Specified Denomination.

The Public Sector Bonds will be in book-entry form and title to the Public Sector Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Public Sector Bonds. Each person shown in the records of an Interbolsa Participant as having an interest in Public Sector Bonds shall be treated as the holder of the principal amount of the Public Sector Bonds recorded therein.

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

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

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



The Public Sector Bonds to be issued on or after the date hereof will be issued in a denomination per unit equal to or higher than €100,000 (or its equivalent in another currency) as specified in the relevant Final Terms.

## **2. TRANSFERS OF PUBLIC SECTOR BONDS**

The transferability of the Public Sector Bonds is not restricted.

Public Sector 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 Public Sector Bond. No owner of a Public Sector Bond will be able to transfer such Public Sector Bond, except in accordance with Portuguese Law and with the applicable procedures of Interbolsa.

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

## **3. STATUS OF THE PUBLIC SECTOR BONDS**

The Public Sector 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 Public Sector Bonds are securities issued in accordance with the Public Sector Bonds Law, which are secured by the Cover Pool maintained by the Issuer in accordance with the terms of the Public Sector Bonds Law, and rank *pari passu* with all other obligations of the Issuer under public sector bonds issued or to be issued by the Issuer pursuant to the Public Sector Bonds Law.

## **4. INTEREST**

### **4.1 Interest on Fixed Rate Public Sector Bonds**

Each Fixed Rate Public Sector 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 Public Sector Bonds up to the Extend 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 (*Interest on Fixed Rate Public Sector Bonds*):

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

In these Terms and Conditions:

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

#### **4.2 Interest on Floating Rate Public Sector Bonds**

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

Each Floating Rate Public Sector Bond and Index Linked Interest Public Sector Bond (as specified in the applicable Final Terms) bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (i) in any case where Specified Periods are specified in accordance with Condition 4.2. (A) (ii) above, the Floating Rate Convention (as specified in the applicable Final Terms), 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 (as specified in the applicable Final Terms), such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the Modified Following Business Day Convention (as specified in the applicable Final Terms), 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 (as specified in the applicable Final Terms), 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 TARGET System is open.

#### *(B) Rate of Interest*

##### *Floating Rate Public Sector Bonds*

The Rate of Interest payable from time to time in respect of Floating Rate Public Sector Bonds will be determined in the manner specified in the applicable Final Terms, provided that (as set out below and detailed in the relevant Final Terms) the relevant rate of interest will be equal to the relevant reference rate plus or minus (as the case may be) the relevant Margin.

(i) *ISDA Determination for Floating Rate Public Sector 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 Public Sector 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-paragraph 4.2.(B), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Public Sector 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.

(iii) *Request from Reference Banks*: If, for the purposes of the calculations described in this Condition 4.2(B) or, where the applicable Final Terms specify a Calculation Agent, the Calculation Agent so specified, the Relevant Screen Page is not available or if no offered quotations appear thereon, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at 11.00 a.m. (London time in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date (as specified in the applicable Final

Terms) in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specify a Calculation Agent, the Calculation Agent.

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

For the purposes of the above, "Reference Banks" means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page or, if applicable, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

- (iv) *Reference Rate specified in Final Terms*: If the Reference Rate from time to time in respect of Floating Rate Public Sector Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Public Sector 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 paragraph 4.2 above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

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

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

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

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

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

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;  
"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

The Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the Calculation Agent so specified, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to any Stock Exchange or other relevant competent listing authority or quotation system on which the relevant Floating Rate Public Sector 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 Public Sector Bonds or Index Linked Interest Public Sector Bonds are for the time being listed or by which they have been admitted to listing and to the holders of Public Sector 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 (*Interest on Floating Rate Sector Public Bonds*), whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents, any Calculation Agent, the Common Representative and all holders of Public Sector Bonds and (in the absence of wilful default or bad faith) no liability to the Issuer, any Calculation Agent, the holders of Public Sector 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 Public Sector Bonds up to the Extended Maturity Date*), interest (if any) will cease to accrue on each Public Sector Bond (or in the case of the redemption of part only of a Public Sector Bond, that part only of such Public Sector 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 Public Sector Bond have been paid; and (ii) five days after the date on which the full amount of the moneys payable in respect of such Public Sector Bond has been received by the Agent, and notice to that effect has been given to the holders of Public Sector 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 Public Sector Bonds up to the Extended Maturity Date**

(A) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Public Sector Bonds and the maturity of those Public Sector Bonds is extended beyond the Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), the Public Sector 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 Public Sector 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 Public Sector Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Public Sector 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) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Public Sector Bonds and the maturity of those Public Sector Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the rate of interest payable from time to time in respect of the principal amount outstanding of the Public Sector Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.

(C) In the case of Public Sector Bonds which are Zero Coupon Public Sector Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Public Sector 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 less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

(D) This Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Public Sector Bonds up to the Extended Maturity Date*) shall only apply to Public Sector Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Public Sector Bonds (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Public Sector Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*).

## **5. PAYMENTS**

### **5.1 Method of payment**

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5 (*Payments*), means the United States of America including the 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 Interbolsa regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

## **5.2 Payments in relation to Public Sector Bonds**

Payments of principal and interest in respect of Public Sector Bonds may only be made in Euro, United States dollar, Japanese yen and Swiss franc until such date as Interbolsa accepts registration and clearing of securities denominated in currencies other than Euro, United States dollar, Japanese yen and Swiss franc.

Payment of principal and interest in respect of the Public Sector Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the Paying Agent (acting on behalf of the Issuer) to the payment current-accounts held in the payment system of the Bank of Portugal by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Public Sector Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Public Sector Bonds or to the accounts with Euroclear and Clearstream Luxembourg of the beneficial owners of those Public Sector Bonds, as applicable, 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 Public Sector Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 8 (*Prescription*)) is a day on which TARGET System is open.

## **5.4 Interpretation of principal**

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

- (i) the Final Redemption Amount of the Public Sector Bonds;
- (ii) the Optional Redemption Amount(s) (if any) of the Public Sector Bonds;
- (iii) in relation to Public Sector 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 Public Sector Bonds.

## **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 Public Sector Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date.

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

If Issuer Call Option is specified in the applicable Final Terms, the Issuer may, having given (unless otherwise specified, in the applicable Final Terms) not less than 30 nor more than 60 days' notice to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Public Sector Bonds (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Public Sector 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 Public Sector 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 Public Sector Bonds, the nominal amount of all outstanding Public Sector Bonds will be redeemed proportionally.

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

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Public Sector Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Public Sector 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 Public Sector Bond the holder of this Public Sector 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 and in which the holder must specify a bank account to which payment is to be made under this Condition. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

## **6.4 Instalments**

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

## **6.5 Purchases**

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Public Sector Bonds at any price in the open market or otherwise. Such Public Sector Bonds may be held, resold or the Issuer, at its option could request to Interbolsa their cancellation.

## **6.6 Cancellation**

All Public Sector Bonds which are redeemed will forthwith be cancelled. All Public Sector Bonds so cancelled and any Public Sector Bonds purchased and which cancellation is requested by the Issuer, 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 Public Sector Bonds**

If the amount payable in respect of any Zero Coupon Public Sector Bond to which Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) does not apply, upon redemption of such Zero Coupon Public Sector Bond pursuant to paragraph 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 Public Sector 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 Public Sector 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 Public Sector 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 Public Sector Bond have been paid; and
- (ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Public Sector Bonds has been received by the Agent and notice to that effect has been given to the holders of Public Sector Bonds either in accordance with Condition 11 (*Notices*) or individually.

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

(A) Under the applicable Final Terms, an Extended Maturity Date will, in principle, apply to all Series of the Public Sector Bonds, but may not be applicable if the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is not adversely affected by such non applicability.

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

relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

(C) In the case of Public Sector Bonds which are Zero Coupon Public Sector Bonds up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6.8 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.

(D) Any extension of the maturity of Public Sector Bonds under this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) shall be irrevocable. Where this Condition 6.8 applies, any failure to redeem the Public Sector Bonds on the Maturity Date or any extension of the maturity of Public Sector 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 Public Sector Bonds any right to receive any payment of interest, principal or otherwise on the relevant Public Sector Bonds other than as expressly set out in these Terms and Conditions.

(E) In the event of the extension of the maturity of Public Sector Bonds under this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), interest rates, interest periods and interest payment dates on the Public Sector 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 Public Sector Bonds up to the Extended Maturity Date*).

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

(G) If the maturity of any Public Sector Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), subject to otherwise provided for in the applicable Final Terms, for so long as any of those Public Sector Bonds remains in issue, the Issuer shall not issue any further public sector bonds, unless the proceeds of issue of such further securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Public Sector Bonds in accordance with the terms hereof.

(H) This Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) shall only apply to Public Sector Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Public Sector Bonds in full on the Maturity Date (or within two Business Days thereafter).

## **7. TAXATION**

### **7.1. Payments free of taxes**

All payments of principal and interest in respect of the Public Sector Bonds will be made subject to any legally applicable Tax withholding or deductions (notably in relation to residents for tax purposes in Portugal), except if any Tax withholding exemption or waiver applies, in which case such payments of principal and interest in respect of the Public Sector Bonds shall be made free and clear of, and without withholding or deduction for, Taxes (investors being in any case required to comply with the applicable obligations). The Issuer will not be obliged to make any additional payments in respect of any such

withholding or deduction imposed. In order for withholding tax not to apply the holders of the Public Sector Bonds must, inter alia, deliver certain tax certifications. See Taxation section.

## **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 Public Sector Bonds in respect of any Tax Deduction made in accordance with Condition 7.1 (*Payment free of taxes*) above.

## **7.3 Taxing Jurisdiction**

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

## **7.4 Tax Deduction not Event of Default**

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

## **8. PRESCRIPTION**

The Public Sector Bonds will become void unless presented for payment within 20 years (in the case of principal) and 5 years (in the case of interest) in each case from the Relevant Date thereof, 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 Public Sector Bonds in accordance with Condition 11 (*Notices*).

## **9. EVENTS OF DEFAULT AND ENFORCEMENT**

### **9.1 Insolvency Event**

Pursuant to the Public Sector Bonds Law, if an Insolvency Event in respect of the Issuer occurs, and without prejudice to the specific terms and conditions established for a particular issue of Public Sector Bonds, the holders of Public Sector Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Public Sector Bonds of all Series then outstanding, to determine the serving of an Acceleration Notice, in which case all outstanding Public Sector Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest.

If an Insolvency Event in respect of the Issuer occurs, the holders of Public Sector Bonds enjoy, under the Public Sector Bonds Law, a special creditor privilege over the Cover Pool (including the Public Sector 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 Public Sector Bonds. Pursuant to the Public Sector Bonds Law, the Common Representative and the Hedge Counterparties also benefit from this special creditor privilege, 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, Decree-Law no. 298/92, of 31 December, as amended from time to time, and/or (if applicable)

under the Code for the Insolvency and Recovery of Companies approved by Decree-Law no. 53/2004, of 18 March, as amended from time to time). 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 (*Insolvency Event*), the holders of the Public Sector 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 Public Sector Bonds.

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

(C) No holder of Public Sector Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Public Sector Bonds or any other Programme Documents 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; and
- (ii) the Issuer will, so long as any of the Public Sector Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe.

## **11. NOTICES**

Notices to the holders of Public Sector Bonds shall, in respect of the Public Sector Bonds listed on Euronext Lisbon, be published on Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A. bulletin (if applicable) and on the CMVM's information system ([www.cmvm.pt](http://www.cmvm.pt)). Furthermore, any such notice shall be disclosed by any further means required to allow a fast access by all holders of Public Sector Bonds throughout the European Union and 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 Public Sector Bonds shall comply with the applicable Portuguese law requirements, notably the CMVM's Regulation No. 5/2008, as amended from time to time.

## **12. MEETINGS OF HOLDERS OF PUBLIC SECTOR BONDS**

(A) The Portuguese Companies Code, which applies to Public Sector Bonds in accordance with Article 14.1 of the Public Sector Bonds Law, contains provisions for convening meetings of the holders of Public Sector

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 holders of the Public Sector Bonds of the relevant Series, whatever the Principal Amount Outstanding of the Public Sector Bonds then outstanding so held or represented in such Series; or (ii) a Resolution regarding a Reserved Matter of the Public Sector Bonds, will be any person or persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Public Sector Bonds of the relevant Series then outstanding or, at any adjourned meeting, any person being or representing holders of Public Sector Bonds of the relevant Series, whatever the Principal Amount Outstanding of the Public Sector Bonds then outstanding so held or represented in such Series; or (iii) a Resolution regarding any increase of the charges to the holders of the Public Sector Bonds, will be any person or persons holding or representing all of the Public Sector Bonds of the relevant Series then outstanding. Each Public Sector Bond grants its holder one vote.

(C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; or (ii) if in respect to a Resolution regarding a Reserved Matter, at least 50 per cent. of the Principal Amount Outstanding of the Public Sector Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting; or (iii) Resolution regarding any increase of the charges to the holders of the Public Sector Bonds, unanimity by all holders of the Public Sector Bonds of the relevant series then outstanding.

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 Public Sector 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 Public Sector Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Public Sector Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Public Sector Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Public Sector 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 Public Sector Bonds of all or of a given Series; (vi) any other provided for pursuant to Portuguese law; or (vii) to amend this definition;

(D) A Resolution approved at any meeting of the holders of Public Sector Bonds of a Series shall, subject as provided below, be binding on all the holders of Public Sector 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 Public Sector Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Public Sector Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

(E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Public Sector 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 Public Sector 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 Public Sector Bonds of any Series.

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

(H) In connection with any meeting of the holders of Public Sector Bonds of more than one Series where such Public Sector Bonds are not denominated in euro, the nominal amount of the Public Sector 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 Public Sector 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 Public Sector Bonds by a Resolution or by a written resolution of such holders of Public Sector Bonds of at least the majority of the Principal Amount Outstanding of Public Sector 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 Public Sector 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 Public Sector 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 Public Sector Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

### **14. REPLACEMENT OF PUBLIC SECTOR BONDS**

Should any Public Sector Bond be lost or destroyed it may be replaced, in accordance with article 51 of the Portuguese Securities Code, at the specified office of the financial intermediary where such Public Sector Bond is registered upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require.

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

#### **15.1 Maintenance of overcollateralisation**

For so long as the Public Sector Bonds are outstanding, and regardless of the time of issue of the Public Sector Bonds, the Value (determined in accordance with the Public Sector Bonds law and the Bank of Portugal Regulations) of the Cover Pool maintained by the Issuer shall at all times be a minimum of 100 per cent. of the aggregate Value of all outstanding Public Sector Bonds issued pursuant to article 32 of the Public Sector Bonds Law and not cancelled or such other percentage as may be selected by the Issuer from

time to time and notified to the Cover Pool Monitor (the “**Collateralisation Percentage**”), provided that the Collateralisation Percentage shall not, for so long as there are Public Sector Bonds outstanding and rated by Moody’s, be reduced by the issuer below 107 per cent..

## **15.2 Issuer Covenants**

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

((A) *Asset Cover*: the aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool;

(B) *Average Maturity*: the remaining average Maturity of all outstanding Public Sector Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;

(C) *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 Public Sector Bonds;

(D) *Valuations*: all the required valuations of Public Sector Bonds, Public Sector Credits over the central administrations, regional or local authorities of any EU Member State as well as Public Sector Credits benefiting from an express and legally binding guarantee issued by any of such entities, Hedging Contracts and Other Assets will be made in compliance with the requirements of the Public Sector Bonds Law and the Bank of Portugal Regulations (in particular Notice 6/2006);

(E) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) in accordance with the Public Sector Bonds Law and in the terms set forth in the Cover Pool Monitor Agreement;

(F) *Public Sector Credits*: the Public Sector Credits over the central administrations, regional or local authorities of any EU Member State as well as Public Sector Credits benefiting from an express and legally binding guarantee issued by any of such entities included in the Cover Pool are not Non-Performing Public Sector Credits;

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

## **16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the holders of Public Sector Bonds to create and issue further securities with the same terms and conditions of the Public Sector 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 Public Sector Bonds of such Series.

## **17. GOVERNING LAW**

The Common Representative Appointment Agreement, the Agency and Payments Procedures, the Public Sector Bonds, and the other Programme Documents and any non-contractual obligations in connection therewith are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

## **18. DEFINITIONS**

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

“**Acceleration Notice**” means a notice served on the Issuer pursuant to Condition 9 (*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.

“**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 19 June, 2008 and made and agreed by Banco BPI, S.A. and by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer.

“**Agent**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto.

“**Banco BPI**” or “**BPI**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto.

“**Bank of Portugal Regulations**” means the legislation passed by the Bank of Portugal regulating certain aspects of the Public Sector Bonds Law, namely Notice 5/2006, Notice 6/2006, Instruction 13/2006, Notice 7/2006 and Notice 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

“**Base Prospectus**” means the base prospectus dated 19 March 2019, prepared in connection with the Programme.

“**Calculation Agent**” except if and where defined otherwise in this Base Prospectus, has the meaning ascribed to it in the Final Terms.

“**Central de Valores Mobiliários**” means the Portuguese Centralised System of Registration of Securities.

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme, Luxembourg.

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

“**Common Representative**” means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Public Sector Bonds pursuant to Article 14 of the Public Sector Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London, NW1 6AA, United Kingdom.

“**Common Representative Appointment Agreement**” means the agreement dated 19 June 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, as amended from time to time.

“**Condition**” means a reference to a particular numbered condition set out in the “Terms and Conditions of the Public Sector Bonds”.

“**Cover Pool**” means the pool of assets maintained by the Issuer and allocated to the issue of Public Sector Bonds under the Programme, held to the benefit of the holders of Public Sector Bonds and the Other Preferred Creditors, and including the Public Sector 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, Lda., member of the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”) with number 183 and registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, n° 1, 3°, 1069-316 Lisbon, Portugal.

“**Cover Pool Monitor Agreement**” means the agreement dated 19 June, 2008 entered into between the Issuer and the Cover Pool Monitor, as amended from time to time.

“**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 Council Regulation (EC) No. 974/98, of 3 May 1998, on the introduction of the euro, as amended from time to time.

“**Euroclear**” means Euroclear Bank S.A./N.V.

“**Euronext Lisbon**” means the regulated market managed by Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A.

“**Eurosystem**” means the monetary authority which comprises the European Central bank and the national central banks of the EU Member States whose currency is the Euro.

“**Final Terms**” means, in relation to each Tranche, the applicable final terms attached to, or endorsed on, such Public Sector Bonds.

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

“**Hedge Counterparties**” means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Public Sector Bonds Law.

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

“**Instruction 13/2006**” means the regulatory instruction no. 13/2006 issued by the Bank of Portugal and published on 15 November 2006, relating to certain information duties applicable in relation to the issue of public sector bonds in accordance with the Public Sector 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 its 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 Public Sector Bonds in respect of Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

“**ISDA**” means the International Swaps and Derivatives Association Inc.

“**Issue Date**” means the date so specified in the applicable Final Terms being, in respect of any Public Sector Bond, the date of issue and purchase of such Public Sector Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

“**Maturity**” means the final legal maturity of any outstanding Public Sector Bonds, Public Sector Credits, Hedging Contracts or Other Assets, as applicable.

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

“**Non-Performing Public Sector Credits**” means, with respect to a Public Sector Credit, that such Public Sector 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.

“**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 public sector bonds in accordance with the Public Sector Bonds Law.

“**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 public sector bonds in accordance with the Public Sector Bonds Law.

“**Notice 7/2006**” means the regulatory notice (“Aviso”) no. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the issue of public sector bonds in accordance with the Public Sector Bonds Law.

“**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 related credit institution which has issued public sector bonds issued in accordance with the Public Sector Bonds Law.

“**Other Assets**” means all assets other than Public Sector Credits and Hedging Contracts which comply with the eligibility criteria established in the Public Sector 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 in securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the rating agencies, provided that such minimum rating shall in any event be at least equal to «A-» or equivalent; and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

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

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

“**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 Public Sector Bonds under the Agency and Payments Procedures.

“**Portuguese Commercial Companies Code**” means the commercial companies code approved by Decree-Law no. 262/86, dated 2 September 1986, as amended from time to time.

“**Portuguese Securities Code**” means Decree-Law no. 486/99, of 13 November 1999, as amended from time to time.

“**Programme**” means the € 2,000,000,000 public sector bonds programme established on 19 June, 2008 for the issuance of Public Sector Bonds by the Issuer as described in this Base Prospectus.

“**Programme Agreement**” means the agreement dated 19 June, 2008 entered into between the Issuer and the Dealers, as amended 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 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 Public Sector 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 Public Sector Bonds of all Series then outstanding.

**“Public Sector Bond”** means any public sector bond issued by the Issuer pursuant to the Public Sector Bonds Law in the form specified in the applicable Final Terms and **“Public Sector Bonds”** shall be construed accordingly.

**“Public Sector Bonds Law”** means the Portuguese legal framework applicable to the issuance of public sector bonds, enacted by Decree-Law no. 59/2006, of 20 March 2006, as amended.

**“Public Sector Credit”** means the credit receivables over the central administrations, regional or local authorities of any EU Member State as well as receivables benefiting from an express and legally binding guarantee issued by any of such entities which are comprised in the Cover Pool.

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

**“Reference Price”** means the reference price appearing in the relevant Final Terms.

**“Register”** means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Public Sector Bonds Law and the Bank of Portugal Regulations;

**“Registered Public Sector Bond”** means any public sector bond in registered form.

**“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 Public Sector Bonds in accordance with Condition 11 (*Notices*).

**“Relevant Screen Page”** has the meaning ascribed to it in the Final Terms.

**“Reserved Matter”** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Public Sector 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 Public Sector Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Public Sector Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Public Sector Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Public Sector 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 Public Sector Bonds of all or of a given Series; (vi) any other provided for pursuant to Portuguese law; or (vii) to amend this definition.

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

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

**“Series”** means a Tranche of Public Sector Bonds together with any further Tranche or Tranches of Public Sector 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.

**“Stock Exchange”** means *Euronext* Lisbon or any other stock exchange where Public Sector Bonds may be listed as per the relevant Final Terms and references herein to the relevant Stock Exchange shall, in

relation to any Public Sector Bonds, be references to the stock exchange or stock exchanges on which such Public Sector 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 System**” means the Trans-European Automated Real-time Gross Settlement Express Transfer Payment System which utilises a single shared platform and which was launched on 19 November 2007 (TARGET 2).

“**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 Public Sector Bonds, the terms and conditions to be endorsed on or applied to the Public Sector Bonds and any reference to a particular numbered Condition shall be construed in relation to the Public Sector Bonds accordingly.

“**Tranche**” means Public Sector Bonds which are identical in all respects (including as to listing).

“**US**” or “**USA**” means the United States of America.

“**U.S.\$**”, “**USD**” or “**US dollars**” means United States dollars, the lawful currency of the United States of America.

“**Value**” means:

- (a) in relation to a Public Sector Credit, for the purpose of the Collateralisation Percentage, an amount equal to the book value of such Public Sector Credit entered on the Register, together with any matured and accrued interest;
- (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 PUBLIC SECTOR BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than €7,500,000, may issue public sector bonds. The Issuer complies with these requirements and is thus allowed to issue public sector bonds under the Public Sector Bonds Law.

### ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Public Sector Bonds only if it maintains a related Cover Pool in compliance with the Public Sector Bonds Law. The Cover Pool may contain credit assets over the central administrations, regional or local authorities of any EU Member State as well as receivables benefiting from an express and legally binding guarantee issued by any of such entities, substitution assets and other eligible assets (including hedging contracts) subject to the limitations provided for in the Public Sector Bonds Law. The Public Sector Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the credit assets over the central administrations, regional or local authorities of any EU Member State as well as receivables benefiting from an express and legally binding guarantee issued by any of such entities (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 Public Sector Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Public Sector Bonds, the Issuer has established and will maintain a segregated register (the “**Register**”) in relation to the Cover Pool for the purposes of the Public Sector Bonds Law. The Issuer plans to issue from time to time further Public Sector Bonds and will include in the relevant Cover Pool, additional credit assets over the central administrations, regional or local authorities of any EU Member State as well as receivables benefiting from an express and legally binding guarantee issued by any of such entities or substitution assets as security for those Public Sector Bonds in accordance with relevant provisions of the Public Sector 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 Public Sector Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

### ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only public sector credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

#### *Public Sector Credits Eligibility Criteria*

- (a) credit assets over the central administrations, regional or local authorities of any EU Member State;
- (b) receivables secured by an express and legally binding guarantee issued by the central administrations, regional or local authorities of any EU Member State.

#### *“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 in 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 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 Public Sector Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool public sector credits which are located in Portugal, granted to or secured by Portuguese central administrations, regional or local authorities for the purposes of the Public Sector Bonds Law.

#### **HEDGING CONTRACTS**

The Public Sector Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Public Sector Bonds Law and described in this section.

Pursuant to the requirements of the Public Sector Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) in a 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 Public Sector 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 Public Sector Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Public Sector 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 Public Sector 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 Public Sector 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 Public Sector Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Public Sector Bonds Law.

#### **WEIGHTED AVERAGE TERM TO MATURITY**

The Public Sector 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 Public Sector Bonds may not exceed, at any time, the average maturity of the Public Sector Credits and Other Assets allocated to the relevant issuance.

#### **OVERCOLLATERALISATION**

Pursuant to the Public Sector Bonds Law, the nominal principal amount of any Public Sector Bonds outstanding irrespective of the fact those Public Sector Bonds are Zero Coupon Bonds or not may not exceed 100 per cent. of the aggregate nominal amount of the Cover Pool less any Public Sector Bonds acquired by the Issuer pursuant to the Public Sector Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Public Sector Bonds may not exceed, at any time, the amount of interest

to be collected under the Cover Pool (including both the Public Sector Credits and the Other Assets) allocated to the Public Sector Bonds.

In compliance with the above legal requirements, Condition 15 (Collateralisation, Valuation of Cover Pool and Issuer Covenants) requires the Issuer to over collateralise the Cover Pool with respect to outstanding Public Sector Bonds at a minimum level of 107 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that the Collateralisation Percentage shall not, for so long as there are Public Sector Bonds outstanding and rated by Moody's, be reduced by the Issuer below 107 per cent..

*See Terms and Conditions of the Public Sector Bonds.*

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of collateralisation referred to above:

- (a) Public Sector Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;
- (b) the Public Sector Bonds shall be accounted according to the nominal value of outstanding principal irrespective of the fact those Public Sector Bonds are Zero Coupon Bonds or not, including matured and accrued but unpaid interest;
- (c) in relation to any Other Assets:
  - (i) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
  - (ii) securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the ECB as a reference.

In addition, the net present value of the liabilities arising from issues of Public Sector 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, pursuant to the Public Sector Bonds Law and in the terms set forth in the Public Sector Bonds Law and in the Cover Pool Monitor Agreement, monitor the Issuer's compliance with the financial requirements established in the Public Sector Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Public Sector Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

- (a) allocating new public sector credit assets over the central administrations, regional or local authorities of any EU Member State or public sector credit assets benefiting from an express and legally binding guarantee issued by any of such entities, with or without substitution of those already allocated to the Public Sector Bonds; and/or
- (b) allocating additional Other Assets; and/or
- (c) acquiring Public Sector Bonds in the secondary market.

#### **VALUATION OF COVER POOL**

The Public Sector Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Public Sector Credits comprised in the Cover Pool.

The Public Sector 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 public sector credit assets over the central administrations, regional or local authorities of any EU Member State, public sector credit assets benefiting from an express and legally binding guarantee issued by any of such entities or Other Assets for the purposes of the Public Sector Bonds Law. The Public Sector Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Notice 6/2006.

### ***Valuation of Other Assets***

Pursuant to 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 for the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

### **COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE**

#### *Autonomous pool of assets and segregated register*

Pursuant to the Public Sector 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 Public Sector Bonds and the Other Preferred Creditors are fully paid and discharged.

The Public Sector Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Public Sector Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer, such register to record the following:

- (i) the outstanding principal amount;
- (ii) the applicable interest rate;
- (iii) the applicable maturity.

Pursuant to Article 4.3 of the Public Sector Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice (“*Aviso*”), the conditions under which the holders of Public Sector Bonds may have access to the segregated register of the Cover Pool.

The segregated register must ensure the segregation between assets allocated to the mortgage covered bonds issued by the Issuer and assets allocated to the Public Sector Bonds.

#### *Special creditor privilege*

Under the Public Sector Bonds Law, the holders of Public Sector Bonds enjoy a special creditor privilege over the Cover Pool (including the Public Sector 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 Public Sector Bonds. Pursuant to the Public Sector Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Public Sector Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The special creditor privilege (“*privilegio creditório*”) over the Public Sector Credits comprised in the Cover Pool shall prevail over all other preferential claims.

## INSOLVENCY OF THE ISSUER

The Public Sector Bonds Law governs the impact on the Public Sector Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Public Sector Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Public Sector 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 Public Sector Bonds. The amounts corresponding to payment of interest and repayment of principal of the Public Sector 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 Public Sector Bonds. In this situation, pursuant to the Public Sector Bonds Law, the holders of Public Sector Bonds are entitled to adopt a resolution approving the immediate acceleration of the Public Sector Bonds by a majority of at least two thirds of the votes of the holders of Public Sector 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 Public Sector Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Public Sector Bonds and (ii) ensure that the payments of any amounts due to the holders of such Public Sector 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 Public Sector Bonds outstanding and to ensure that payments due to the holders of such Public Sector 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 Notice 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

- (i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;
- (ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Public Sector Bonds, including, without limitation:
  - a. selling the Public Sector Credits comprised in the Cover Pool;
  - b. ensuring the timely collection in respect of the Public Sector Credits comprised in the Cover Pool;
  - c. performing all other acts and administrative services in connection with such Public Sector Credits and related Additional Security;
- (iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Public Sector Bonds Law; and
- (iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Public Sector 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 Public Sector 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 Public Sector Credits.

## **COMMON REPRESENTATIVE OF THE HOLDERS OF PUBLIC SECTOR BONDS**

BNP Paribas Trust Corporation UK Limited, with registered office at 10 Harewood Avenue, London, , NW1 6AA, is a wholly owned subsidiary of BNP Paribas Securities Services, incorporated in the UK, authorised and regulated by the Financial Conduct Authority and has been appointed by the Issuer as representative of the holders of the Public Sector Bonds pursuant to Article 14 of the Public Sector Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement. The Common Representative is an entity duly authorised to represent the holders of the Public Sector Bonds as per Article 14(3) of the Public Sector Bonds Law.

The Issuer has appointed the Common Representative to represent the holders of Public Sector Bonds. According to the Public Sector Bonds Law and to the relevant provisions of the Portuguese Commercial Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Public Sector Bonds, namely: (a) to represent the holders of Public Sector Bonds in respect of all matters arising from the issuance of the Public Sector 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 Public Sector Bonds, in particular those where the acceleration of the Public Sector Bonds may be decided; (c) to represent the holders of Public Sector 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 Public Sector Bonds with all relevant information regarding the issuance of the Public Sector Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Public Sector Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative. The removal of any Common Representative shall not become effective unless there shall be a Common Representative in Office after such removal.

## **COVER POOL MONITOR**

### **APPOINTMENT OF A COVER POOL MONITOR**

The Public Sector 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 Public Sector Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Public Sector Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Public Sector 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 issuing entity and is not in a position that hinders its independent analysis and decision-making process, notably in light of (i) holding 2 per cent. or more of the issued share capital of the Issuer, either directly or on behalf of a third party; or (ii) having been re-elected for more than two terms either consecutive or not. For this purpose, a term corresponds to a period of 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 Public Sector Bonds.

### **ROLE OF THE COVER POOL MONITOR**

Pursuant to the Cover Pool Monitor Agreement, dated 30 April 2008, as amended from time to time, the Issuer appointed on 22 October 2018 Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. as Cover Pool Monitor. Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. is registered with the CMVM under registration number 20161485.

The Cover Pool Monitor Agreement reflects the requirements of the Public Sector Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Public Sector Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

### **DUTIES AND POWERS OF THE COVER POOL MONITOR**

In accordance with the Public Sector Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Public Sector Bonds, compliance by the Issuer with the financial and prudential requirements established in the Public Sector Bonds Law and in the Bank of Portugal Regulations in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*).

Pursuant to the Public Sector Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Public Sector 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 Public Sector Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation and



the valuation of assets comprised in the Cover Pool. The Cover Pool Monitor and the Issuer may agree in the production of interim reports.

The Public Sector 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 at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months’ notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

## DESCRIPTION OF THE ISSUER

The Issuer is a commercial bank focused on commercial banking business in Portugal.

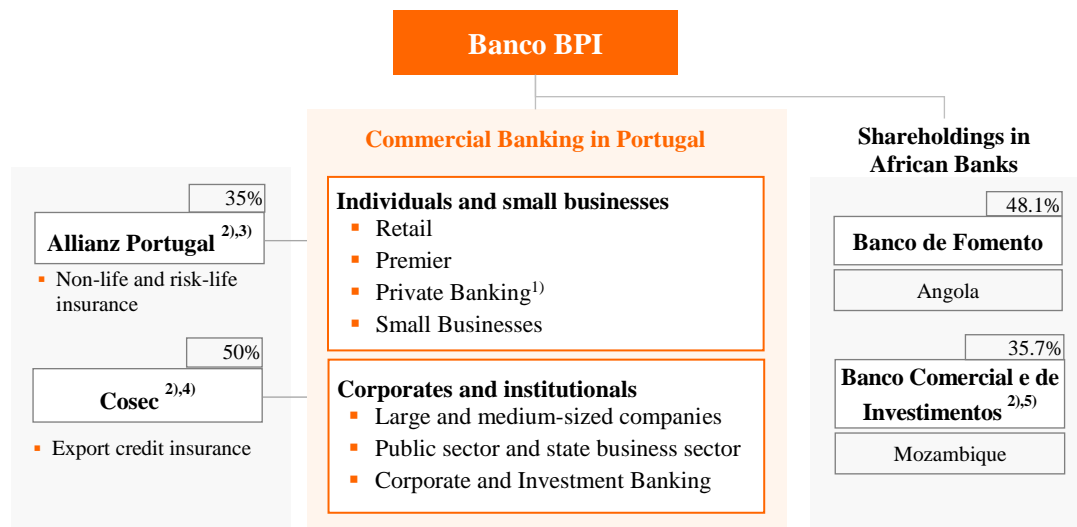
Banco BPI is part of the CaixaBank Group and is the fifth largest financial institution operating in Portugal<sup>25</sup> in terms of assets (€ 31.6 billion<sup>26</sup>), with market shares close to 10 per cent. in loans and in Customer deposits.

BPI's business is organized around two main segments: (i) Individuals and small businesses and (ii) Corporates and Institutional Clients (Sector and the State Enterprise Sector). The Issuer offers a complete range of financial products and services, tailored to the specific needs of each segment, through a specialized, multi-channel and fully integrated distribution network. The Issuer's product offering is complemented by investment and savings solutions from the CaixaBank Assets and Insurance area and also includes a range of non-life and life-risk insurance through a distribution agreement with Allianz Portugal, in which BPI has a 35 per cent.. In credit insurance, The Issuer has a stake of 50 per cent in COSEC, in partnership with Euler Hermes (a company from Allianz Group), which holds the remaining 50 per cent. The Issuer serves 1.93 million Customers in the domestic market, with relevant market shares in the various products and services offered.

At the end of 2018, the distribution network comprises 495 business units, of which 421 are retail branches, 1 mobile retail unit, 39 premier centres 34 corporate and institutional centres.

The distribution network articulates with virtual channels, which include homebanking services (BPI Net and BPI Net Empresas), telephone banking (BPI Directo) and mobile applications (BPI Apps).

The Issuer also holds financial investments in two African banks: 48,1 per cent. stake in Banco de Fomento Angola (BFA) capital, which operates in commercial banking in Angola and a 35,7 per cent. stake in Banco Comercial e de Investimentos (BCI), which operates in commercial banking in Mozambique.



1) Includes the activity of BPI Suisse (100 per cent. held).

2) Equity-accounted subsidiaries.

3) In association with Allianz, which holds 65 per cent. of the capital.

<sup>25</sup> In terms of total assets as of 31 December 2017. Source Associação Portuguesa de Bancos (APB - Portuguese Banking Association), Statistics; and banks earnings disclosure

<sup>26</sup> As of 31 December 2018. Source: BPI calculations using public information

4) *In association with Euler Hermes, a company of Allianz Group.*

5) *In partnership with Caixa Geral de Depósitos (which holds 61,51 per cent. of capital).*

## **HISTORY**

BPI's origins date back to 1981 with the establishment of SPI - Sociedade Portuguesa de Investimentos, which had a diversified shareholder base, mainly composed of national companies, including 100 of the most dynamic Portuguese firms and four of the most important international financial institutions.

In 1985 SPI underwent a transformation that gave rise to BPI, the first Portuguese private bank set up following the reopening of the sector to private initiative, after the nationalisations of 1975. In 1986, BPI became the first bank listed on the Portuguese stock exchange.

In 1991, ten years after its creation, BPI, which in the meantime had already achieved a clear leadership in the main areas of Investment Banking, expanded its business to commercial banking through the acquisition of BFB.

In 1995 the institution was converted into a bank holding company. This reorganisation, which led to the specialisation of the Group's units, was accompanied by an important reinforcement of its shareholder structure with the entry of two new strategic partners of considerable size to team up with Itaú Group: La Caixa Group and Allianz Group.

In 1998 a pioneering merger process created a single bank under a single brand: Banco BPI.

From 1996 to 2005 the Bank pursued its growth path through mergers and acquisitions of other banks. Banco de Fomento, in Angola, was also incorporated in this period (2002), resulting from the transformation of Banco BPI's Luanda branch into a fully-fledged Angolan-law bank. In 2008 a 49,9 per cent. stake in Banco de Fomento was sold to Unitel.

In 2006 BPI completed 25 years of activity, always upholding its strategy of sustained value creation for Shareholders, Employees and Customers.

From the end of 2007, in the context of the severe international financial crisis that had meanwhile flared up, the Bank's management focused on four priorities: protecting and reinforcing capital; sustaining liquidity levels; reducing risks; and strengthening the relationship with the Clients. At the same time and in each new phase, it sought to strike a balance between three key pillars: safety and solidity, protection of the customer base, and business profitability.

In 2012 BPI implemented a Recapitalisation Plan that involved an issue of €1.5 billion of contingent convertible subordinated bonds (CoCos) subscribed by the Portuguese State, aimed at fulfilling the recapitalisation exercise proposed by the EBA. In 2014 Banco BPI fully reimbursed the CoCos, completing the reimbursement to the State three years ahead of schedule.

In April 2016 CaixaBank, S.A., a shareholder holding on that date 44,1 per cent of Banco BPI's share capital, released a preliminary announcement of a public, general and voluntary tender offer on all the shares of Banco BPI, at the price of €1.113 per share. In September 2016, BPI's General Meeting approved the elimination of the statutory limit on the counting of votes cast by any single shareholder. As a result, a new preliminary announcement of the tender offer was published to take into account the alterations stemming

from the change of the nature of the offer from voluntary to mandatory, namely in the price, now established at €1.134 per share, and in the terms of the takeover.

In 2017 the Issuer sold to Unitel an equity interest representing 2 per cent. of Banco de Fomento Angola capital. Following that transaction, the shareholdings of Banco BPI and Unitel in BFA were 48.1 per cent. and 51.9 per cent., respectively.

In February 2017, upon completion of a public tender offer, CaixaBank took over control of BPI, raising its stake from 45 per cent. to 84,51 per cent..

In May 2018 CaixaBank acquired from Allianz the entire 8,425 per cent. stake held by the latter in Banco BPI, after which it held 92,935 per cent. of BPI. On the same date, CaixaBank announced it was its intention to acquire the remaining shares to reach 100 per cent. of Banco BPI' capital.

The de-listing of the Issuer and the compulsory acquisition of any remaining shares of the Issuer by CaixaBank was concluded at the end of December 2018. As at the date of this Base Prospectus, CaixaBank owns 100 per cent. of the share capital of the Issuer.

#### **ESTABLISHMENT AND DOMICILE**

The Issuer is domiciled in Rua Tenente Valadim, 284, 4100-476 Porto, Portugal. The telephone number of the Issuer is +351 22 2075000.

#### **LEGAL FORM**

The Issuer is registered as a bank with the Bank of Portugal and operates under the legal name of “Banco BPI, S.A.”. The Issuer also operates under the commercial name of “*BPI*”. It is a limited liability company (“*Sociedade Anónima*”) under Portuguese law registered for an indefinite term in the Commercial Register of Porto, under no. 501 214 534 as at 23 October 1981.

#### **OBJECT AND PURPOSE**

According to its constitutional documents (in particular to article 3 of the Issuer’s Memorandum and Articles of Association), the scope of the Issuer is to carry on banking business including any additional, related or similar operations compatible with the said business to the full extent permitted by law. The Issuer may also participate in partnership association agreements, complementary corporate conglomerates or European conglomerates of economic interest and may acquire, either originally or subsequently, shares or portions of capital in public limited companies and interests in unlimited liability companies of any object whatsoever and even if subject to special laws.

#### **SHAREHOLDERS**

The Issuer’s sole shareholder as of 31 December 2018 is:

Shareholder	No. of shares held	% of capital held
CaixaBank, S.A.	1 456 924 237	100%

Source: BPI communication to the market dated 27 December 2018 “*Perda de qualidade de sociedade aberta do Banco BPI, S.A. – 3º Anúncio*”. Following the exercise by CaixaBank of the right for the compulsory acquisition of the remaining shares on the 27 Dec. 2018, CaixaBank now holds 100 per cent. of Banco BPI’s capital.

Currently the Issuer has a set of internal procedures and regulations which define the functions of the Executive Committee of Board of Directors, of the Nominations, Evaluation and Remunerations Committee, of the Risk Committee, of the Audit and Internal Control Committee and of the Corporate Social Responsibility Committee. These internal procedures and rules comply with applicable laws and regulations in force and governance best practices, namely in what concerns transactions with related parties and these measures implemented by the Issuer are also thought to avoid the major shareholder position's abuse.

## **BUSINESS OVERVIEW OF THE ISSUER**

The Issuer's Group is focused on the activity of commercial banking developed in Portugal and is organised around two main segments: (i) Individuals and small businesses and (ii) Corporates and Institutional Clients.

### Individuals and Small Businesses

Individuals, Premier and Small Businesses Banking network is responsible for commercial initiatives with individual Customers, small businesses and companies with turnover of up to € 5 million. For this purpose, it relies on a distribution network of retail, Premier Centres and virtual branches - homebanking and telephone banking and mobile applications - which is geared towards mass-market and affluent Customers and small businesses. In BPI Premier Centres and in other specific retail branches, financial advisors offer a personalised financial advisory service to affluent Customers - high net worth Customers or Customers with potential for wealth creation.

BPI's Private Banking, made up of a team of experts in Portugal and also comprising a 100 per cent. held subsidiary, in Switzerland - BPI Suisse - provides discretionary management and financial advice specialist services to high net worth individual Customers.

### Corporates and Institutional Clients

Corporates and Institutional Banking network is responsible for: (i) SME and large corporates with a turnover of more than 5 million (if turnover between € 2 million and € 5 million, corporate banking operates in parallel with the Individuals, Premier and Small Business network) and (ii) institutional clients, namely entities of the Public Sector, Public and Municipal Companies, the State Business Sector, or other institutional entities with a turnover of more than € 2 million or liabilities in BPI of more than € 500 thousand.

The relationship with the largest domestic business groups, insurance companies and the subsidiaries of the largest Spanish companies is managed by the Corporate and Investment Banking, created in 2017, aiming to provide a better service by assuring an Iberian view.

This segment operates through a specialised distribution network of corporate and investment banking centres (3), corporate centres (29) and institutional centres (2).

## **SHARE CAPITAL**

As at 31 December 2018 Banco BPI's share capital amounted to €1,293,063,324.98 and was represented by 1,456,924,237 ordinary shares with no nominal value (all issued shares are fully paid).

## **SELECTED HISTORICAL KEY FINANCIAL INFORMATION**

The following tables contain selected key financial information for the years ended 31 December 2016 and 2017 (audited), for the first half year of 2018 (audited), and for the year ended 31 December 2018 (unaudited).

### Consolidated income statement as of 31 December 2018

In M.€	2017 restated <sup>1)</sup>	2018
Net interest income	388.1	422.6
Dividend income	6.5	1.7
Equity accounted income	124.8	271.6
Net fee and commission income	264.0	277.8
Gains/(losses) on financial assets and liabilities and other	14.4	76.9
Other operating income and expenses	(24.3)	(12.9)
<b>Gross income</b>	<b>773.5</b>	<b>1 037.6</b>
Staff expenses	(369.7)	(262.2)
Of which: Recurring staff expenses	(263.9)	(241.1)
Non-recurring costs <sup>2)</sup>	(105.8)	(21.1)
Other administrative expenses	(150.9)	(172.9)
Depreciation and amortisation	(21.9)	(23.8)
<b>Operating expenses</b>	<b>(542.5)</b>	<b>(458.9)</b>
<b>Net operating income</b>	<b>231.0</b>	<b>578.6</b>
Impairment losses and other provisions	(0.1)	47.9
Gains and losses in other assets	12.2	(68.7)
<b>Net income before income tax</b>	<b>243.0</b>	<b>557.9</b>
Income tax	(51.8)	(131.4)
<b>Net income from continuing operations</b>	<b>191.3</b>	<b>426.4</b>
Net income from discontinued operations	(181.0)	64.2
Income attributable to non-controlling interests	(0.0)	
<b>Net income</b>	<b>10.2</b>	<b>490.6</b>
<b>EARNINGS PER SHARE</b>		
	2017 restated <sup>1)</sup>	2018
<b>Earnings per share (€)</b>	<b>0.01</b>	<b>0.34</b>
Net income from continuing operations (€)	0.13	0.29
Net income from discontinued operations (€)	-0.12	0.04
Average weighted nr. of shares (in millions)	1 456	1 457

The 2017 income statement restated reflects the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF to the consolidated results in accordance with IFRS 5, the adoption of a new income statement structure following the entry into force of IFRS 9, and the reclassification of some costs from Other administrative expenses to Commissions paid.  
1) Costs with voluntary terminations and early retirements.

Consolidated Balance Sheet as of 31 December 2018

In M.€	31 Dec. 17	31 Dec. 18
<b>ASSETS</b>		
Cash and cash balances at central banks and other demand deposits	1 094.1	2 452.9
Financial assets held for trading, at fair value through profit or loss and at fair value through other comprehensive income	4 175.9	2 330.5
Financial assets at amortised cost	22 506.7	25 671.9
Of which:		
Loans to Customers	21 638.2	22 949.1
Investments in joint ventures and associates	794.5	209.1
Tangible assets	45.3	67.3
Intangible assets	42.3	55.1
Tax assets	453.2	352.8
Non-current assets and disposal groups classified as held for sale	73.3	33.9
Other assets	454.9	394.5
<b>Total assets</b>	<b>29 640.2</b>	<b>31 568.0</b>
<b>LIABILITIES</b>		
Financial liabilities held for trading	170.0	141.3
Financial liabilities at amortised cost	25 961.4	27 515.7
Deposits - Central Banks and Credit Institutions	3 978.0	3 206.3
Deposits - Customers	20 713.6	22 960.3
Technical provisions		
Debt securities issued	1 020.0	1 118.2
Memorandum items: subordinated liabilities	305.1	304.5
Other financial liabilities	249.8	231.0
Provisions	64.2	65.5
Tax liabilities	70.6	73.8
Liabilities included in disposal groups classified as held for sale	4.5	0.0
Other liabilities	545.8	565.7
<b>Total Liabilities</b>	<b>26 816.6</b>	<b>28 362.1</b>
Shareholders' equity attributable to the shareholders of BPI	2 823.6	3 206.0
Non controlling interests	0.0	0.0
<b>Total Shareholders' equity</b>	<b>2 823.6</b>	<b>3 206.0</b>
<b>Total liabilities and Shareholders' equity</b>	<b>29 640.2</b>	<b>31 568.0</b>

*Note: With the entry into force of IFRS 9, the Issuer decided to adopt a structure of the individual and consolidated financial statements in line with the guidelines of Regulation (EU) 2017/1443 of June 29, 2017 and with the structure of the financial statements presented by CaixaBank (the consolidating entity of the Issuer).*

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT AND LOSS  
FOR THE SIX-MONTH PERIODS ENDED ON 30 JUNE 2018 AND 2017 RESTATED**

(Amounts expressed in euro thousands)

	Notes	30-06-2018	30-06-2017 Restated
Interest income	20	246 641	239 459
Interest expenses	20	( 39 481)	( 47 062)
<b>NET INTEREST INCOME</b>		<b>207 160</b>	<b>192 397</b>
Dividend income		1 471	6 401
Share of profit/(loss) of entities accounted for using the equity method	9	17 125	120 712
Fee and commission income	21	158 016	147 274
Fee and commission expenses	21	( 23 380)	( 23 587)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	22	3 475	968
Gains/(losses) on financial assets and liabilities held for trading, net	22	26 189	8 710
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	22	60 314	
Gains/(losses) on financial assets and liabilities measured at fair value through profit or loss, net	22	0	13
Gains/(losses) from hedge accounting, net		425	124
Exchange differences (gain/loss), net		( 16 598)	4 777
Other operating income	23	5 110	2 602
Other operating expenses	23	( 20 863)	( 20 256)
<b>GROSS INCOME</b>		<b>573 044</b>	<b>440 135</b>
<b>Administrative expenses</b>		<b>( 211 293)</b>	<b>( 317 503)</b>
Staff expenses	24	( 126 828)	( 238 884)
Other administrative expenses	25	( 84 465)	( 78 619)
<b>Depreciation and amortisation</b>		<b>( 10 426)</b>	<b>( 11 002)</b>
<b>NET OPERATING INCOME</b>		<b>351 325</b>	<b>111 630</b>
<b>Provisions or reversal of provisions</b>		<b>( 2 240)</b>	<b>425</b>
Commitments and guarantees given		( 2 272)	196
Other provisions		32	( 1 491)
<b>Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss</b>		<b>13 590</b>	<b>( 9 666)</b>
Available-for-sale financial assets			( 258)
Financial assets at amortised cost		13 590	( 9 408)
Impairment/(reversal) of impairment on non-financial assets		( 1 017)	4 713
Gains/(losses) on derecognition of non-financial assets, net		359	2 993
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>362 017</b>	<b>110 095</b>
Tax expense or income related to profit or loss from continuing operations		( 60 174)	( 8 193)
<b>PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>		<b>301 843</b>	<b>101 902</b>
<b>Profit/(loss) after tax from discontinued operations</b>	13	<b>64 214</b>	<b>( 203 603)</b>
Profit/(loss) before tax from discontinued operations	13	64 955	( 164 047)
Tax expense or income related to profit or loss from discontinued operations	13	( 741)	( 39 556)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>366 057</b>	<b>( 101 701)</b>
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>			<b>( 24)</b>
Profit/(loss) of non-controlling interests			( 24)
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	26	<b>366 057</b>	<b>( 101 725)</b>
<b>Earnings per share (euros)</b>			
Basic	5	0,251	(0,070)
Diluted	5	0,251	(0,070)
<b>Earnings per share from continuing operations (euros)</b>			
Basic	5	0,207	0,070
Diluted	5	0,207	0,070
<b>Earnings per share from discontinued operations (euros)</b>			
Basic	5	0,044	(0,140)
Diluted	5	0,044	(0,140)

The accompanying notes are an integral part of these financial statements

The Chief Accountant

The Executive Committee of the Board of Directors

Note: Translation of the information contained in the Portuguese version of the Issuer's first half 2018 interim consolidated Report



CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2018 AND 31 DECEMBER 2017

		(Amounts expressed in euro thousands)	
	Note s	30-06-2018	31-12-2017 Restated
<b>ASSETS</b>			
Cash and cash balances at central banks and other demand deposits	7	2 259 683	1 094 150
Financial assets held for trading	7	294 859	294 481
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	7	234 960	
Equity instruments		174 544	
Debt securities		60 416	
Financial assets designated at fair value through profit or loss	7		6 055
Financial assets at fair value through other comprehensive income	7	2 141 742	
Equity instruments		79 348	
Debt securities		2 062 394	
Available-for-sale financial assets	7		3 875 370
Financial assets at amortised cost	7	25 636 436	22 506 670
Debt securities		3 400 133	1 306 130
Loans and advances - Central Banks and other Credit Institutions		1247 015	816 783
Loans and advances - Customers		20 989 288	20 383 757
Derivatives - Hedge accounting	8	12 094	12 740
Fair value changes of the hedged items in portfolio hedge of interest rate risk		22 181	20 574
Investments in joint ventures and associates	9	717 001	794 483
Tangible assets	10	38 619	45 309
Intangible assets	11	45 277	42 315
Tax assets	27	421 576	453 183
Other assets	12	399 304	487 615
Non-current assets and disposal groups classified as held for sale	13	54 579	7 264
<b>Total assets</b>		<b>32 278 311</b>	<b>29 640 209</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	14	154 571	170 048
Financial liabilities at amortised cost	14	28 261 767	25 961 415
Deposits - Central Banks		1 992 631	1 995 374
Deposits - Credit Institutions		3 302 066	1 982 648
Deposits - Customers		22 113 627	20 713 633
Debt securities issued		593 638	10 199 977
Memorandum items: subordinated liabilities		304 421	305 077
Other financial liabilities		259 805	249 783
Derivatives - Hedge accounting	8	55 983	69 880
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1 472	218
Provisions	15	66 893	64 238
Pending legal issues and tax litigation		42 191	42 367
Commitments and guarantees given		21 498	18 441
Other provisions		3 204	3 430
Tax liabilities	27	72 475	70 622
Other liabilities	16	539 444	475 731
Liabilities included in disposal groups classified as held for sale	13		4 471
<b>Total Liabilities</b>		<b>29 152 605</b>	<b>26 816 623</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital	18	1 293 063	1 293 063
Other equity	18	1 594	2 276
Accumulated other comprehensive income	18	( 216 300)	( 163 559)
Items that will not be reclassified to profit or loss		( 122 051)	( 313 417)
Tangible assets		703	703
Actuarial gains/ (losses) on defined benefit pension plans		( 181 959)	( 312 310)
Share of other recognised income and expense of investments in joint ventures and associates		( 1291)	( 1810)
Fair value changes of equity instruments measured at fair value through other comprehensive income		60 496	
Items that may be reclassified to profit or loss		( 94 249)	149 858
Foreign currency translation		( 112 570)	43 104
Fair value changes of debt instruments measured at fair value through other comprehensive income		1370	
Available-for-sale financial assets			84 150
Share of other recognised income and expense of investments in joint ventures and associates		16 951	22 604
Retained earnings	18	1 173 228	945 294
Other reserves	18	508 441	736 865
Treasury shares	18	( 377)	( 377)
Accumulated other comprehensive income related to discontinued operations			( 185)
<b>Profit/(loss) attributable to owners of the parent</b>		<b>366 057</b>	<b>10 209</b>
<b>Total Equity</b>		<b>3 125 706</b>	<b>2 823 586</b>
<b>Total Equity and Total Liabilities</b>		<b>32 278 311</b>	<b>29 640 209</b>

The accompanying notes are an integral part of these financial statements

The Chief Accountant

Executive Committee of the Board of Directors

Note: Translation of the information contained in the Portuguese version of the Issuer's first half 2018 interim consolidated Report

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX- MONTH PERIODS ENDED ON 30 JUNE 2018 AND 2017 RESTATED**

	(Amounts expressed in euro thousands)	
	<b>30-06-2018</b>	<b>30-06-2017 Restated</b>
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>366 057</b>	<b>( 101 701)</b>
<b>Other comprehensive income</b>	<b>( 29 816)</b>	<b>216 901</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>130 877</b>	<b>23 225</b>
Actuarial gains/ (losses) on defined benefit pension plans	100 473	32 763
Share of other recognised income and expense of entities accounted for using the equity method	650	
Fair value changes of equity instruments measured at fair value through other comprehensive income	( 169)	
Income tax relating to items that will not be reclassified	29 923	( 9 538)
<b>Items that may be reclassified to profit or loss</b>	<b>( 160 693)</b>	<b>193 676</b>
Foreign currency translation	( 173 266)	186 046
Translation gains/(losses) taken to equity	( 173 266)	3 925
Transferred to profit or loss	0	182 121
Debt instruments classified as fair value financial assets through other comprehensive income	872	
Valuation gains/(losses) taken to equity	( 357)	
Transferred to profit or loss	( 115)	
Other reclassifications	1344	
Available- for- sale financial assets		10 087
Valuation gains/(losses) taken to equity		10 236
Transferred to profit or loss		( 149)
Share of other recognised income and expense of investments in joint ventures and associates	( 6 517)	2 593
Income tax relating to items that may be reclassified to profit or loss	18 218	( 5 050)
<b>Total comprehensive income for the period</b>	<b>336 241</b>	<b>115 200</b>
Attributable to minority interests (non- controlling interests)	0	24
Attributable to owners of the parent	336 241	115 176

The accompanying notes are an integral part of these financial statements

**The Chief Accountant**

**The Executive Committee of the Board of Directors**

*Note: Translation of the information contained in the Portuguese version of the Issuer's first half 2018 interim consolidated Report*

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

(Translation of statements originally issued in Portuguese – note 5)  
(Amounts expressed in thousands of euro)

	Notes	31 Dec. 17		31 Dec. 16	
		Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net	Net
<b>ASSETS</b>					
Cash and deposits at central banks	4.1	909 851		909 851	876 621
Deposits at other credit institutions	4.2	276 354		276 354	300 190
Financial assets held for trading and at fair value through profit or loss	4.3 / 4.4	300 536		300 536	2 197 913
Financial assets available for sale	4.5	3 976 638	101 268	3 875 370	3 876 434
Loans and advances to credit institutions	4.6	724 727		724 727	637 607
Loans and advances to Customers	4.7	22 243 689	584 907	21 658 782	22 735 758
Held to maturity investments	4.8				16 317
Hedging derivatives	4.4	12 740		12 740	25 802
Non-current assets held for sale and discontinued operations	4.9	7 264		7 264	6 295 910
Other tangible assets	4.10	420 581	375 272	45 309	50 955
Intangible assets	4.11	143 390	101 075	42 315	25 629
Investments in associated companies and jointly controlled entities	4.12	794 484	1	794 483	175 678
Tax assets	4.13	435 415		435 415	471 848
Other assets	4.14	573 512	16 449	557 063	597 990
<b>Total assets</b>		<b>30 819 181</b>	<b>1 178 972</b>	<b>29 640 209</b>	<b>38 284 652</b>
<b>LIABILITIES</b>					
Resources of central banks	4.15			1 995 374	2 000 011
Financial liabilities held for trading	4.16 / 4.4			170 048	212 713
Resources of other credit institutions	4.17			1 982 648	1 096 439
Resources of Customers and other debts	4.18			20 783 832	21 967 681
Debt securities	4.19			236 978	506 770
Financial liabilities relating to transferred assets	4.20			477 985	555 385
Hedging derivatives	4.4			69 880	97 756
Non-current liabilities held for sale and discontinued operations	4.9			4 471	5 951 398
Provisions	4.21			64 239	70 235
Technical provisions	4.22				2 048 829
Tax liabilities	4.23			70 622	22 006
Other subordinated debt and participating bonds	4.24			305 077	69 500
Other liabilities	4.25			655 469	777 404
<b>Total liabilities</b>				<b>26 816 623</b>	<b>35 376 127</b>
<b>SHAREHOLDERS' EQUITY</b>					
Subscribed share capital	4.27			1 293 063	1 293 063
Other equity instruments	4.28			2 276	4 309
Revaluation reserves	4.29			127 954	(21 514)
Other reserves and retained earnings	4.30			1 390 646	1 044 319
(Treasury shares)	4.28			(377)	(10 809)
Other accumulated comprehensive income related to discontinued operations	4.9			(185)	(182 121)
Consolidated net income of the BPI Group	4.43			10 209	313 230
<b>Shareholders' equity attributable to the shareholders of BPI</b>				<b>2 823 586</b>	<b>2 440 477</b>
Non-controlling interests	4.31				468 048
<b>Total shareholders' equity</b>				<b>2 823 586</b>	<b>2 908 525</b>
<b>Total liabilities and shareholders' equity</b>				<b>29 640 209</b>	<b>38 284 652</b>
<b>OFF BALANCE SHEET ITEMS</b>					
Guarantees given and other contingent liabilities	4.32			1 572 858	1 466 208
Of which:					
(Guarantees and sureties)				(1 394 398)	(1 294 856)
(Others)				(178 460)	(171 352)
Commitments	4.32			3 285 505	3 392 479

The accompanying notes form an integral part of these balance sheets.

The Accountant

The Board of Directors

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 PROFORMA**

(Translation of statements originally issued in Portuguese – note 5)  
(Amounts expressed in thousands of euro)

	Notes	31 Dec. 17	31 Dec. 16 Proforma
Interest and similar income		458 093	518 060
Interest and similar expenses		(90 865)	(154 420)
<b>Financial margin (narrow sense)</b>	<b>4.33</b>	<b>367 228</b>	<b>363 640</b>
Income from equity instruments	4.34	6 525	8 528
Net commission relating to amortised cost	4.35	20 830	21 216
<b>Financial margin</b>		<b>394 583</b>	<b>393 384</b>
Commissions received		276 144	267 776
Commissions paid		(29 793)	(34 304)
Other income, net		30 047	28 861
<b>Net commission income</b>	<b>4.36</b>	<b>276 398</b>	<b>262 333</b>
Gain and loss on operations at fair value		11 378	24 357
Gain and loss on assets available for sale		3 071	21 975
Interest and financial gain and loss with pensions		(606)	1 043
<b>Net income on financial operations</b>	<b>4.37</b>	<b>13 843</b>	<b>47 375</b>
Operating income		41 625	21 197
Operating expenses		(219 019)	(37 260)
Other taxes		(7 278)	(6 213)
<b>Operating income and expenses</b>	<b>4.38</b>	<b>(184 672)</b>	<b>(22 276)</b>
<b>Operating income from banking activity</b>		<b>500 152</b>	<b>680 816</b>
Personnel costs	4.39	(369 104)	(304 011)
General administrative costs	4.40	(163 357)	(166 199)
Depreciation and amortisation	4.10 / 4.11	(21 878)	(21 360)
<b>Overhead costs</b>		<b>(554 339)</b>	<b>(491 570)</b>
Recovery of loans, interest and expenses		29 768	13 733
Impairment losses and provisions for loans and guarantees, net	4.21	(25 200)	(33 009)
Impairment losses and other provisions, net	4.21	41	(36 483)
<b>Net income before income tax</b>		<b>(49 578)</b>	<b>133 487</b>
Income tax	4.41	(87 655)	(37 202)
Earnings of associated companies (equity method)	4.42	124 753	26 190
<b>Net income from continuing operations</b>		<b>(12 480)</b>	<b>122 475</b>
Net income from discontinued operations	4.9	22 700	359 620
Income attributable to non-controlling interests from continuing operations	4.31	(11)	(45)
Income attributable to non-controlling interests from discontinued operations	4.9		(168 820)
<b>Income attributable to non-controlling interests</b>		<b>(11)</b>	<b>(168 865)</b>
<b>Consolidated net income of the BPI Group</b>	<b>4.43</b>	<b>10 209</b>	<b>313 230</b>
<b>Earnings per share (in euro)</b>			
Basic	4.43	0.007	0.216
Diluted	4.43	0.007	0.215
<b>Earnings per share from continuing operations (in euro)</b>			
Basic	4.43	(0.009)	0.084
Diluted	4.43	(0.009)	0.084
<b>Earnings per share from discontinued operations (in euro)</b>			
Basic	4.43	0.016	0.132
Diluted	4.43	0.016	0.131

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 PROFORMA

(Translation of statements originally issued in Portuguese – note 5)  
(Amounts expressed in thousands of euro)

	31 Dec. 17			31 Dec. 16 Proforma		
	Attributable to shareholders of the BPI Group	Attributable to non-controlling interest	Total	Attributable to shareholders of the BPI Group	Attributable to non-controlling interest	Total
<b>Consolidated net income</b>	<b>10 209</b>	<b>11</b>	<b>10 220</b>	<b>313 230</b>	<b>168 865</b>	<b>482 095</b>
Income not included in the consolidated statements of income related to continued operations:						
<b>Items that will not be reclassified to net income:</b>						
Actuarial deviations	31 274		31 274	(211 692)		(211 692)
Tax effect	(8 838)		(8 838)	56 123		56 123
	<b>22 436</b>		<b>22 436</b>	<b>(155 569)</b>		<b>(155 569)</b>
<b>Items that may be reclassified subsequently to net income:</b>						
Foreign exchange translation differences						
Transfer to income	182 121		182 121			
Foreign exchange differences	90 743		90 743	(23 036)		(23 036)
Tax effect	(8 859)		(8 859)			
Revaluation reserves of financial assets available for sale:						
Revaluation of financial assets available for sale	72 628		72 628	(8 539)		(8 539)
Tax effect	(4 929)		(4 929)	1 907		1 907
Transfer to income resulting from sales	(2 733)		(2 733)	(22 495)		(22 495)
Tax effect	738		738	6 171		6 171
Transfer to income resulting from impairment recognized in the period	2 586		2 586	24 471		24 471
Tax effect	(705)		(705)	(6 705)		(6 705)
Valuation of assets of associated companies	12 640		12 640	(8 932)		(8 932)
Tax effect	(1 554)		(1 554)	2 032		2 032
	<b>342 676</b>		<b>342 676</b>	<b>(35 126)</b>		<b>(35 126)</b>
Income not included in the consolidated statements of income related to discontinued operations:						
<b>Items that will not be reclassified to net income:</b>						
Actuarial deviations	132		132			
Tax effect	(34)		(34)			
	<b>98</b>		<b>98</b>			
<b>Items that may be reclassified subsequently to net income:</b>						
Foreign exchange differences				(87 845)	(88 616)	(176 461)
Revaluation reserves of financial assets available for sale	2		2			
	<b>2</b>		<b>2</b>	<b>(87 845)</b>	<b>(88 616)</b>	<b>(176 461)</b>
Income not included in the consolidated statements of income	<b>365 212</b>		<b>365 212</b>	<b>(278 540)</b>	<b>(88 616)</b>	<b>(367 156)</b>
<b>Consolidated comprehensive income</b>	<b>375 421</b>	<b>11</b>	<b>375 432</b>	<b>34 690</b>	<b>80 249</b>	<b>114 939</b>

The accompanying notes form an integral part of these statements.

The auditor's reports on the consolidated financial statements of the Issuer for the years ended on 31 December 2016 and on 31 December 2017 and for the first semester ended 30 June 2018 did not include any reserves.

Please refer to the complete versions of the auditor's reports included in the annual reports and half year report of the Issuer, together with the respective financial statements, which are incorporated by reference in this Prospectus.

## **INVESTMENTS**

There have been no material investments by the Issuer since 31 December 2018.

## **RATINGS**

The ratings assigned to the Issuer from time to time are available for consultation at <http://bpi.bancobpi.pt/index.asp?riIdArea=AreaDivida&riChgLng=1&riLang=en&riId=IRatings&riIdTopo=>. The long term/short term ratings currently assigned to the Issuer are Baa2/P-2 with negative outlook by Moody's, BBB / F2 with stable outlook by Fitch and BBB/A-2 with stable outlook by S&P.

Each of Fitch, S&P and Moody's is established in the European Community and has been registered in accordance with the CRA Regulation. The full list of credit rating agencies that are registered under the CRA Regulation can be found at ESMA's website.

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.

## **CORPORATE GOVERNANCE**

The Issuer's governance model is structured in compliance with the Portuguese Commercial Companies Code as follows:

- the company's management is entrusted to the Board of Directors which includes an Executive Committee to which the Board has delegated wide management powers for conducting the day-to-day activity. Within the ambit of the Board of Directors, three specialist commissions function, composed exclusively of non-executive members: (i) the Audit and Internal Control Committee; (ii) the Risk Committee and (iii) the Nominations, Evaluation and Remuneration Committee. In September 2017, as foreseen in the corporate statutes a Corporate Social Responsibility Committee was created.
- the oversight functions are attributed to the Supervisory Board ("*Conselho Fiscal*") – whose key terms of reference include overseeing management, supervising compliance with the Law and the Issuer's Articles of Association, verifying the accounts, supervising the independence of the Statutory Auditor and the external auditor, as well as evaluating the work of the latter - and to the Statutory Auditor ("*Revisor Oficial de Contas*"), whose prime function is to examine and then certify the accounts.

- the General Shareholders’ Meeting, composed of all the shareholders of the Issuer, deliberates on the issues which are specifically attributed to it by the law or by the Articles of Association – including the election of the governing bodies, the approval of the directors' reports, the annual accounts, the distribution of profits, and capital increases –, as well as if so solicited by the Board of Directors, on matters dealing with the company's management.
- the Remuneration Committee, comprising three members, is elected by the General Shareholders’ Meeting. The Committee sets out the remuneration of the officers serving on the Issuer's governing bodies. It is bound to observe the limits defined by the General Shareholders’ Meeting as regards the fixed compensation of the members of the Board of Directors and the variable compensation of the Executive Committee.
- the Company Secretary is appointed by the Board of Directors and performs the functions contemplated in the law and others attributed pursuant to the Articles of Association of the Issuer.

## MANAGEMENT<sup>27,28</sup>

The following is a list of the members of the Board of Directors, approved in the General Meeting held on 26 April 2017, for the 2017/2019 term of office. The business address of each of the below-mentioned members of the Board of Directors is Banco BPI, S.A., Largo Jean Monnet, 1, 1269-067 Lisbon, Portugal. Board of Directors.

### Board of Directors:

Chairman:	Fernando Ulrich
Deputy-Chairman and chief executive officer (“CEO”):	Pablo Forero
Non-executive Deputy-Chairman:	António Lobo Xavier
Members:	
Executive member	Alexandre Lucena e Vale
Executive member	António Farinha de Morais
Non-executive member	António José Andrade Cabral
Non-executive member	Cristina Rios Amorim
Executive member	Francisco Manuel Barbeira
Non-executive member	Gonzalo Gortázar Rotaèche
Executive member	Ignacio Alvarez-Rendueles
Executive member	João Oliveira e Costa

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<sup>27</sup> Each of the following members of the Board of Directors issued a declaration in the terms and for the purposes of Article 245 (1) (c) of the Securities Code, regarding the Annual Report in respect of the financial year ended on 31 December 2016: Artur Santos Silva, Fernando Ulrich, Alfredo Rezende de Almeida, António Lobo Xavier, Carla Bambulo, Ignacio Alvarez-Rendueles, João Pedro Oliveira e Costa, José Pena do Amaral, Luís Vendrell, Manuel Ferreira da Silva, Maria Celeste Hagatong, Mário Leite da Silva, Pedro Barreto, Tomas Jervell and Vicente Tardio Barutel.

<sup>28</sup> Each of the following members of the Board of Directors issued a declaration in the terms and for the purposes of Article 245 (1) (c) of the Securities Code, regarding the Annual Report in respect of the financial year ended on 31 December 2017: Fernando Ulrich, António Lobo Xavier, Pablo Forero, Alexandre Lucena e Vale, António Farinha Morais, Carla Bambulo, Cristina Rios Amorim, Fátima Barros, Francisco Barbeira, Gonzalo Gortázar, Ignacio Alvarez-Rendueles, Javier Pano, João Pedro Oliveira e Costa, José Pena do Amaral, Juan Alcaraz, Luís Vendrell, Pedro Barreto, Tomás Jervell, Vicente Tardio Barutel.

Executive member	José Pena do Amaral
Non-executive member	Javier Pano Riera
Non-executive member	Lluís Vendrell Pi
Non-executive member	Maria de Fátima Barros Bertoldi
Non-executive member	Natividad Pifarre
Executive member	Pedro Barreto
Non-executive member	Tomas Jervell

The members of the Board of Directors were elected on April, 26, 2017 and took up office on July 21, 2017. Maria de Fátima Barros Bertoldi was co-opted to the Board of Directors in February 23, 2018 and took up office in the same date.

António José Cabral elected in the General Meeting in April 20, 2018 took up office in July 9, 2018.

Natividad Capella Pifarre co-opted to the Board of Directors in June 29, 2018 took up office in October 19, 2018.

#### **Position in other companies of BPI Group**

Name	Position	Companies
Alexandre Lucena e Vale	Non-executive Director	BPI Capital África, Proprietary Ltd. (100%)
João Oliveira Costa	Non-executive Director	BPI Suisse (100%)
José Pena do Amaral	Non-executive Director	Companhia de Seguros Allianz Portugal, S.A. (35%)
Pedro Barreto	Non-executive Deputy-Chairman	BCI – Banco Comercial e de Investimentos, S.A. (35,67%)
	Executive Chairman of the Board of Directors	BPI Madeira, SGPS, Unipessoal, S.A. (100%)

#### **Relevant activities outside BPI Group**

Name	Position	Companies
Fernando Ulrich	Not applicable*	Not applicable*
Pablo Forero	Not applicable*	Not applicable*
António Lobo Xavier	Non-Executive Director	SonaeCom – SGPS, S.A.
	Non-Executive Director	NOS, SGPS, S.A.
	Non-Executive Director	Mota Engil, S.A.
	Non-Executive Director	Fábrica Têxtil Riopele, S.A.
Alexandre Lucena e Vale	Not applicable*	Not applicable*
António Farinha Morais	Not applicable*	Not applicable*
António José Andrade Cabral	Not applicable*	Not applicable*
Cristina Rios Amorim	Vice-president and Chief Financial Officer	Amorim Investimentos e Participações, SGPS, S.A.



	Non-Executive Director and responsible by the supervision of the financial department	Corticeira Amorim, SGPS, S.A.
	Non-Executive Director	Amorim – Sociedade Gestora de Participações Sociais, S.A.
Francisco Manuel Barbeira	Non-Executive Director	SIBS, SGPS, S.A.
	Non-Executive Director	Unicre – Instituição de Crédito, S.A.
Gonzalo Gortázar	Chief Executive Officer	CaixaBank, S.A.
	Chairman	VidaCaixa
	Non-Executive Vice-President	Repsol
Ignacio Alvarez-Rendueles	Not applicable*	Not applicable*
Javier Pano	Chief Financial Officer	CaixaBank, S.A.
João Oliveira Costa	Not applicable*	Not applicable*
José Pena do Amaral	Chairman	Fundação Casa da Música
Lluís Vendrell	Corporate Manager M&A	CaixaBank, S.A.
Maria de Fátima Bertoldi	Non-Executive Director	Fundação Francisco Manuel dos Santos
	Member of the Corporate Governance and Social Responsibility Committee	Jerónimo Martins, SGPS, SA
	Non-Executive Director	Brisa Concessão Rodoviária, S.A.
	Member of the Supervisory Board	Warta, Retail & Services Investments, BV
Natividad Pifarre	Head of Global Risk	CaixaBank, S.A.
	Non-Executive Director	GDS, CUSA
	Non-Executive Director	CaixaBank Payments
	Non-Executive Director	VidaCaixa
Pedro Barreto	Not applicable*	Not applicable*
Tomás Jervell	Chief Executive Officer	NORS/Auto Sueco
	President of the “Conselho de Gerência”	Auto-Sueco, Lda.
	Director	Ascendum, S.A.

Note: “Not applicable\*” means no activities outside the BPI Group.

### **CONFLICTS OF INTEREST**

The Issuer is not aware of any potential conflicts of interests between any duties to the Issuer by any of the members of either the Board of Directors or the Executive Committee of the Board of Directors in respect of their private interests and/or other duties.

## **SUPERVISORY BOARD**

The Supervisory Board performs the functions attributed to it by law, the Articles of Association and the Issuer's internal regulations.

The following is a list of the members of the Supervisory Board<sup>29</sup>, approved in the General Meeting held on 20 April 2018, until the end of the current term of office (2017-2019):

Chairman:	Manuel Ramos de Sousa Sebastião
Members:	Rui Manuel Campos Guimarães Elsa Maria Roncon Santos Ricardo Filipe de Frias Pinheiro
Alternate members:	Luís Manuel Roque de Pinho Patricio Manuel Joaquim das Neves Correia de Pinho

The Supervisory Board's composition is deliberated upon by the General Shareholders' Meeting of the Issuer. The Supervisory Board exercises its function for terms of three years.

Besides any other competence set out in law or in the Bank's articles of association, the Supervisory Board is responsible for:

- Overseeing the process involving the preparation and disclosure of any financial information;
- Reviewing the effectiveness of internal-control, internal-audit and risk-management systems;
- Receiving reports of irregularities submitted by shareholders, company employees or others;
- Monitoring the statutory audit; and
- Reviewing and overseeing the independence of the statutory auditor, namely whenever the statutory auditor provides other services to the Company.

The Supervisory Board meets at least every two months.

The Issuer is not aware of any potential conflicts of interest between any duties *vis-à-vis* the Issuer of the members of the Supervisory Board and their private interests or other duties.

## **STATUTORY AUDITOR**

Taking in consideration that the term of office of the Statutory Auditor (“*Revisor Oficial de Contas*”) is of four years, the General Meeting of Shareholders elected on April 26, 2017:

- Deloitte & Associados, SROC, S.A. as the Statutory Auditor for the fiscal year of 2017; and
- PricewaterhouseCoopers, SROC, S.A. as the Statutory Auditor for the remaining years of the 2018-2020 mandate.

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<sup>29</sup> Abel Pinto dos Reis, Rui Manuel Campos Guimarães and Jorge de Figueiredo Dias have been responsible for the report and opinion on BPI Group's 2016 and 2017 consolidated accounts.

Deloitte & Associados, SROC, S.A., member of the Portuguese Association of the Chartered Accountants (“*Ordem dos Revisores Oficiais de Contas*”), with registered office at Avenida Eng.º Duarte Pacheco, 7, 1070-100 Lisbon, Portugal, has designated Paulo Alexandre Rosa Pereira Antunes (Statutory Auditor – “*Revisor Oficial de Contas*”) to represent it, who is also a member of the Portuguese Association of the Chartered Accountants. The alternate member is Carlos Luís Oliveira de Melo Loureiro.

Paulo Alexandre de Sá Fernandes has been responsible for the legal certification of accounts and audit report for the year ended 31 December 2016. Paulo Alexandre Rosa Pereira Antunes has been responsible for the audit report for the year ended 31 December 2017.

PricewaterhouseCoopers, SROC, S.A., member of the Portuguese Association of the Chartered Accountants (“*Ordem dos Revisores Oficiais de Contas*”), with registered office at Palácio Sottomayor, Rua Sousa Martins, 1-3º, 1069-316 Lisbon, as designated José Manuel Henriques Bernardo to represent it, who is also a member of the Portuguese Association of the Chartered Accountants. The alternate member is Ana Carla Ávila de Oliveira Lopes Bertão. José Manuel Henriques Bernardo has been responsible for the audit report for the period of six months ended 30 June 2018.

## **THE ORIGINATOR'S STANDARD BUSINESS PRACTICES, CREDIT ASSESSMENT AND SERVICING OF THE COVER POOL**

### **OVERVIEW**

Public Sector credit is originated at BPI by the institutional clients units based in Oporto and Lisbon. Credit to the Autonomous Regions of Azores and Madeira is originated by the regional corporate units. The institutional clients units are specialized departments integrated in the north and south Corporate and Institutional Departments, respectively. They are mainly dedicated to the public sector entities, i.e., entities owned or controlled, directly or indirectly, by the Portuguese State, and also comprising the major Nonprofit social economy institutions.

The procedures regarding credit origination, monitoring and recovery defined for corporate credit are also applicable to credit to public sector entities. Corporate and Institutional Departments are under the supervision of the member of BPI's Executive Board responsible for the global corporate business.

As at 30 June 2018, BPI's Public Sector loan portfolio amounted to EUR 1,518 million, including central administration, regional and local administrations, state corporate sector and other institutional entities.

### **ORIGINATION, RISK ASSESSMENT AND DECISION-MAKING**

The two institutional units which account for 14 professionals, including 2 managers, are focused on municipalities, municipal companies and the social economy sector (including essentially not-for-profit entities). State-owned companies are covered the large corporates units, according to their geographical locations.

Credit proposals are originated through BPI's direct contact with municipalities and state-owned companies. By law, to meet their funding requirements, municipalities are required to adopt a competitive tender process with consultation to, at least, three banks. An identical procedure is adopted by state-owned companies. All public sector entities are subject to strict indebtedness controls and procedures which are defined in the relevant legislation.

As for BPI's Corporate Banking, the "four eyes" principle is also adopted for public sector operations and risk assessment is carried out independently by a specialized unit of the Credit Risk Department dedicated to the public sector. Credit policy, guidelines and procedures adopted for the public sector and for the whole corporate sector of BPI are defined in the same key document. A fully documented credit review is made for each lending proposal.

The rules of procedure and the limits for decision making applied by BPI for public sector operations are also defined in accordance with the guidelines established for corporate operations. They set out five decision making levels based on the level of exposure.

BPI has defined internal objectives and limits for global exposure to the Portuguese public sector in the context of its risk appetite framework. Those are reviewed on a regular basis.

## **OPERATIONS AND SERVICING**

The Operations Department manages all credit transactions. It executes all tasks related to credit transactions, commercial leasing, factoring, guarantees, financial capacity certificates and issuance of letters of credit.

Servicing procedures include:

- Execution and control of all the loan transactions, foreign exchange credit operations and advances on export receivables, including registration and management of associated guarantees and subsidies from external entities.
- Contract issuance based on drafts prepared by the Legal Department for all the operations as well as any further amendments and renewal of conditions.
- Maintain permanent contact with relevant internal departments and with external entities such as Banco de Portugal, Credit Insurance Companies, and other entities.

Through the lifetime of each credit operation, BPI's systems issue payment notices which are mailed to borrowers 20 days prior to the respective payment day. Payments are made by automatic debit of the borrower's cash deposit account.

If a borrower has more than one unpaid instalment from the same or different credit transaction, the rule is to collect first the older one.

When there is a prepayment, BPI debits the cash deposit account of the customer together with a prepayment fee to compensate BPI for the internal costs, and breakage costs in the case of fixed rate loans.

## **MONITORING**

The Credit Risk Department (CRD) is responsible for monitoring the credit portfolio of Corporate Banking for the purpose of timely detection of any default situations and allowing for the adoption of adequate measures to prevent default such as the enforcement of guarantees and debt restructuring.

The intervention of the CRD in their monitoring functions is mainly focused on non-technical default cases that cannot be settled by the commercial departments in the short term (up to 30 days). However, when deemed suitable, this intervention may occur sooner and even in situations when there is still no default.

If, in spite of the monitoring process, the overdue credit situation is not settled by the 60<sup>th</sup> day, CRD will draw up an action proposal to be submitted to the Credit Board. Based on the action proposal, the Credit Board may decide to maintain the customer management and monitoring with the Commercial Department or transfer it to CRD – Recovery.

Monitoring Tools:

Monitoring action is based on several tools such as: rating system (in what concerns Public Sector Credit, for Municipalities only – a simple expert system that will be revised soon) an alert system, internal and

external databases, intervention at the Commercial Department level and finally, intervention at customer level.

In addition, Commercial Department and CRD conduct regular reviews of all exposures, at least on an annual basis, and maintain a watch list, reported on a quarterly basis, of the weaker counterparts assessed on a stand-alone basis

## **RECOVERIES**

Loans in arrears are handled by the Recovery Division and the Litigation Department dedicated to corporate loans which are also responsible for the monitoring and surveillance of Public Sector credit.

The recovery division of the Credit Risk Department - Recovery (“**CRD – Recovery**”) is the main division responsible for credit recovery by non-judicial means. The intervention of CRD – Recovery is directed towards recovery of arrears outstanding for greater than 60 days.

CRD - Recovery is responsible for the full relationship with customers that are put under its supervision and therefore benefits from the same supporting instruments for the relationship with customer companies as the commercial departments. In addition it is backed by the Litigation Department.

CRD – Recovery intervention is based on a negotiating process that may require the restructuring of the credit in arrears, preferably via enforcement of guarantees. Although these are normally delicate negotiations, CRD – Recovery has concern for swiftness of recovery, which should be achieved in less than 150 days from when the arrears were originally registered.

Notwithstanding available instruments, when the settlement of a default situation is impossible and all forms of recovery by non-judicial means are exhausted, the case is sent to the Litigation Department where the recovery of the overdue credit is made via judicial means.

The Litigation Department is part of the Legal Department and is responsible for the judicial recovery of debt. It represents BPI and its subsidiaries in all actions brought in court by them or against them.

The Litigation Department is also responsible for analysing proposals for extra-judicial agreements made by debtors and deciding whether to accept such proposals or to submit an opinion to the Credit Risk Department for a final decision on actions to be taken and/or prepare write-off proposals.

## **USE OF PROCEEDS**

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

## THE PUBLIC SECTOR BONDS LAW

### FRAMEWORK

The Public Sector Bonds Law introduced a framework for the issuance of public sector debt securities into Portuguese law.

The Public Sector Bonds Law has been supplemented by the Bank of Portugal Regulations. The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

### ISSUERS OF PUBLIC SECTOR BONDS

Public sector bonds (“*obrigações sobre o sector público*”) may be issued by credit institutions (the “**Institutions**”) legally authorised to grant credit to central administrations, regional or local authorities of any EU Member State or credits guaranteed by such entities 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 Public Sector Bonds Law specialising in the issuance of public sector/mortgage covered bonds (the “**Mortgage Credit Institutions**”).

If the issuer of public sector bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue public sector bonds directly maintaining the underlying cover pool on its balance sheet.

If the issuer of public sector bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting and acquiring credits to, or guaranteed by, the central administrations, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue public sector bonds backed by credits originated by itself or otherwise acquired from third party originators.

If public sector 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 public sector 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 public sector 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 assets that it may acquire as a result of the enforcement of delinquent public sector 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 public sector 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 public sector bonds and other preferred creditors as specified in the Public Sector Bonds Law. In this respect, the Public Sector Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the public sector bonds of the insolvent Institution, the holders of public sector bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.



## **COVER ASSETS**

The following assets are eligible to collateralise issues of public sector bonds made by an Institution in accordance with the Public Sector Bonds Law:

- Public Sector Credits over central administrations, regional or local authorities of any EU Member State;
- Public Sector Credits benefiting from an express and legally binding guarantee issued by central administrations, regional or local authorities of any EU Member State;

The following assets may also be included in the Cover Pool as Other Assets:

- Deposits with the Bank of Portugal, in cash or in securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the European Central Bank and the national banks of the EU Member States whose currency is the euro);
- 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
- Other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal.

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 Public Sector Bonds issued by the Issuer.

The geographical scope of eligible assets is restricted to public sector credits to, or guaranteed by central administrations, regional or local authorities located in an EU Member State.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide to, include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Public Sector Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

## **ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS**

The Public Sector Bonds Law and the Bank of Portugal Regulations establish the following asset and liabilities matching requirements:

- The global nominal value of the outstanding public sector bonds, irrespective of the fact those Public Sector Bonds are Zero Coupon Bonds or not, cannot exceed 100 per cent. of the global value of the public sector credits and other assets at any time comprised in the relevant cover pool;
- The average maturity of outstanding public sector bonds cannot exceed the average maturity of the public sector credits and substitution assets allocated to the relevant issue of public sector bonds;
- The total amount of interest to be paid by an Institution under any public sector bonds shall not exceed, at any point in time, the amount of interest to be collected from the public sector credits and other assets comprised in the cover pool backing the relevant issue of public sector bonds – this means,

therefore, that under the Public Sector Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of public sector bonds;

- The net present value of the liabilities arising from issues of public sector bonds pursuant to the Public Sector Bonds Law cannot exceed the net present value of the cover pool assigned to such public sector 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 collateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- (i) the credits to, or guaranteed by central administrations, regional or local authorities of any EU Member State shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- (ii) the public sector bonds shall be accounted according to the nominal value of outstanding principal, irrespective of the fact those Public Sector Bonds are Zero Coupon Bonds or not including accrued but unpaid interest; and
- (iii) in relation to any other assets:
  - (a) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
  - (b) securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant public sector bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Public Sector Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of public sector bonds, allowing the Institution, *inter alia*, to assign new credits to, or guaranteed by central administrations, regional or local authorities of any EU Member State 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 public sector bonds. The credit facility counterparty must have a minimum credit rating of “A-” or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated “A-” or above. If a particular issue of public sector bonds is denominated in a currency other than 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 Public Sector Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new public sector credits to, or guaranteed by central administrations, regional or local authorities of any EU Member State, by (ii) purchasing outstanding public sector bonds in the secondary market and/or by (iii) allocating other eligible assets.

Public sector 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 public sector credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Public Sector Bonds Law, substituted by new public

sector credits to, or guaranteed by central administrations, regional or local authorities of any EU Member State.

Public sector credits underlying public sector bonds may only be sold or pledged if the Institution allocates new public sector credits to, or guaranteed by central administrations, regional or local authorities of any EU Member State to the public sector bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Public Sector Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of public sector bonds under the Public Sector Bonds Law. Prior to a first issuance of public sector 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 public sector bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of public sector bonds outstanding and on any new issues of public sector 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 Public Sector Bonds Law.

Pursuant to the Public Sector 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 public sector bonds – common to all public sector or mortgage covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of public sector 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 public sector bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. If the holders of Public Sector Bonds decide to accelerate the relevant public sector bonds, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key pursuant to article 4.5 of the Public Sector Bonds Law.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the public sector bonds will have a special creditor privilege (“*privilégio creditório*”), in particular in case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of public sector 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 public sector bonds. In any case, and even if the Institution is declared insolvent, the Public Sector Bonds Law determines that timely payments of interest and reimbursements under the public sector 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 public sector bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such public sector bonds are made. Such project shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the public sector bonds outstanding and to ensure that payments due to the holders of such public sector bonds are made.

In accordance with 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 public sector credits comprised in the cover pool; ensuring the timely collection in respect of the assets comprised in the cover pool; and performing all other acts and administrative services in connection with such assets and related additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Public Sector Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding public sector 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 public sector credits comprised in the relevant cover pool.

#### *Preferential status for public sector bonds holders*

Pursuant to the Public Sector Bonds Law, holders of public sector bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant public sector bonds.

The public sector credits rights that serve as collateral for the entitlements of the holders of public sector bonds prevail over any preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the public sector bonds, the holders of public sector bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the public sector bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Public Sector Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all Series of public sector bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the public sector 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 Public Sector Bonds Law and in the relevant terms and conditions that govern such issue.

**RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION**

Public Sector bonds issued in accordance with the Public Sector 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 the CRR. The risk-weighting applicable to public sector 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 Public Sector Bonds. It does not purport to be an exhaustive description of all tax considerations that may be relevant to decide about the purchase of Public Sector Bonds. Notably, the following general discussion does not consider any specific facts or circumstances that may apply to a particular purchaser.

This summary 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 Public Sector Bonds are advised to consult their own tax advisers as to the tax consequences resulting from the purchase, ownership and disposition of Public Sector Bonds, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or deemed to be, residents.

The economic advantages deriving from interests, amortisation or reimbursement premiums and other types of remuneration arising from Public Sector Bonds issued by private entities are qualified as investment income for Portuguese tax purposes.

### Public Sector Bonds held through a centralised control system

Interest and other types of investment income obtained on Public Sector Bonds by a Portuguese resident individual is subject to individual 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, subject to tax at progressive income tax rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding EUR as follows: (i) 2.5 per cent. on the part of the taxable income exceeding EUR 80,000 up to EUR 250,000, and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding EUR 250,000. Investment income paid or made available on accounts held by one or more parties on account of unidentified third parties is subject to a withholding tax rate of 35 per cent., except where the beneficial owner of the income is identified, in which case the general rules will apply.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

In the case of zero coupon Public Sector Bonds, the difference between the redemption value and the subscription cost is qualified as investment income and is also subject to Portuguese income tax.

Capital gains taxation of 28 per cent., applicable to Portuguese resident individuals, will apply on the positive difference between the capital gains and capital losses arising from the transfer of the Public Sector Bonds. Accrued interest qualifies as investment income, rather than as capital gains for tax purposes.

Interest and other investment income derived from Public Sector Bonds and capital gains realised with the transfer of Public Sector 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 is subject to a 21 per cent. corporate tax rate applicable on taxable profits, which may be subject to a municipal surcharge (“*derrama municipal*”) of up to 1.5 per cent. on their taxable profits. A State Surcharge (“*derrama estadual*”) rate will be of 3 per cent. due on the part of the taxable profits exceeding €1,500,000 up to €7,500,000 and of 5 per cent. on the part of the taxable profits exceeding €7,500,000 up to €35,000,000, and taxable income above €35,000,000 will be subject to a 9 per cent. rate.

Withholding tax on interest and other investment income at a rate of 25 per cent. applies, which is deemed a payment on account of the final tax due.

Portuguese financial institutions, pension funds, mutual funds, retirement and/or education savings funds, share savings funds, venture capital funds incorporated under the laws in Portugal and some exempt entities are not subject to withholding tax.

Interest and other investment income paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules 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 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.

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 were approved by Order (“*Despacho*”) 30.359/2007, of the Portuguese Minister of State and Finance, published in the 2<sup>nd</sup> Series of Portuguese official gazette no. 251, of 31<sup>st</sup> December, which may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

Interest and other investment income paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

A withholding tax rate of 35 per cent. applies in case of investment income payments to individuals or companies domiciled 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 2011, as amended from time to time (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”).

Capital gains obtained on the transfer of Public Sector Bonds by non resident individuals without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation unless the individual 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 2011, as amended from time to time (*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*). Capital gains obtained by individuals that are not entitled to said exemption will be subject to taxation at a 28 per cent. flat rate and should be declared in the Portuguese annual tax return to be presented by the seller. Accrued interest does not qualify as capital gains for tax purposes.

Regarding capital gains obtained on the disposal of Public Sector 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 non resident entity is more than 25 per cent. directly or indirectly held by Portuguese resident entities 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 2011, 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 21 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese corporate income tax, but the applicable rules should be confirmed on a case by case basis.

Stamp tax at a rate of 10 per cent. applies to the acquisition through gift or inheritance of Public Sector Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse, de facto spouse, descendants and parents/grandparents. The acquisition of Public Sector Bonds through gift or inheritance by a Portuguese resident legal person or a non resident acting through a Portuguese permanent establishment is subject to a 21 per cent. corporate tax rate applicable on the taxable profits, which may be subject to a municipal surcharge (“*derrama municipal*”) of up to 1.5 per cent. over their taxable profits. A State Surcharge (“*derrama estadual*”) rate will be of 3 per cent. due on the part of the taxable profits exceeding €1,500,000 up to €7,500,000 and of 5 per cent. on the part of the taxable profits exceeding €7,500,000 up to €35,000,000, and taxable income above €35,000,000 will be subject to a 9 per cent. rate. No stamp tax applies to the acquisition through gift and inheritance of Public Sector Bonds by an individual who is not domiciled in Portugal. The acquisition of Public Sector Bonds through gift or inheritance by a non resident legal person is 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.

There is no wealth or estate tax in Portugal on the Public Sector Bonds.

The regime described above corresponds to the general tax treatment of investment income and capital gains on Public Sector Bonds and to the acquisition through gift or inheritance of such Bonds.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7<sup>th</sup> November, as amended from time to time (“**the special regime approved by Decree-law 193/2005**”), investment income and capital gains on the disposal of debt securities issued by Portuguese resident entities, such as the Public Sector Bonds obtained by non-resident beneficial owners, are exempt from Portuguese income tax provided that (i) the debt securities are integrated in a centralised system managed by an entity resident in Portugal or by an international clearing system managing entity of a member state of the European Union or of the European Economic Area (in this case, the member state of the European Economic Area should be subject to administrative cooperation in tax issues similar to the administrative cooperation agreement in force between EU countries), and (ii) the beneficial owners are:



- (i) central banks or governmental agencies; or
- (ii) international organisations recognised by the Portuguese State; or
- (iii) entities with residency in countries with whom Portugal has a double tax treaty or a tax information exchange agreement in force; or
- (iv) 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 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 2011, as amended from time to time (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”).

The special regime approved by Decree-Law 193/2005 sets out the detailed rules and procedures to be followed on the evidence of non residence by the beneficial owners of the bonds to which it applies. Under these rules, the direct register entity (i.e. the entity affiliated to the centralised system where the securities are integrated), as the entity holding the relevant account with the relevant centralised system in which the Public Sector Bonds are integrated, will be under the obligation to obtain and keep proof, in the form described below, that the beneficial owner is a non resident entity that is entitled to the exemption. As a general rule, the evidence of non residence status should be provided to, and received by, the direct registration entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Public Sector Bonds), and prior to the transfer of Public Sector Bonds date, as the case may be. The relevant direct registering entity shall withhold the relevant tax if the requirements for a withholding tax exemption are not met.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

**(a) Domestically Cleared Public Sector Bonds**

The beneficial owner of Public Sector Bonds must provide proof of non residence in Portuguese territory substantially in the terms set forth below.

- (i) If the beneficial owner of Public Sector Bonds is a central bank, an international organisation or a public law institution integrated in the Public Administration (either central, regional, peripheral, indirect or autonomous), a declaration of tax residence issued by the beneficial owner of Public Sector Bonds itself, duly signed and authenticated or proof pursuant to (iv) below;
- (ii) If the beneficial owner of Public Sector Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner of Public Sector Bonds and its domicile; or (C) proof of non residence pursuant to (iv) below.
- (iii) If the beneficial owner of Public Sector Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its

registration or supervision or by the tax authorities, confirming its legal existence, the law of incorporation and domicile; or (B) proof of non residence pursuant to (iv) below.

- (iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules regarding the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of Public Sector Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3 year period starting on the date such document is produced. The beneficial owner of Public Sector Bonds must inform the register entity immediately of any change on the requirement conditions that may prevent the tax exemption to apply.

When the Public Sector Bonds are held by central banks, governmental agencies, investment funds or other type of collective investment undertaking domiciled in any OECD country, the respective proof of non-residence in Portuguese territory is provided just once, its periodical renewal not being necessary.

#### **(b) Internationally Cleared Public Sector Bonds**

If the Public Sector Bonds are held through a centralised system recognised under the Portuguese Securities Code and complementary legislation, and registered in an account with an international clearing system under the terms foreseen in Decree-Law 193/2005 (such as Euroclear or Clearstream, Luxembourg), the identification and amount of securities, as well as the amount of income, and, if applicable, the amount of withheld tax, shall be communicated (as mentioned below) and the beneficiaries shall be identified under one of the following categories:

- (i) Entities with residence, headquarters, effective management or permanent establishment to which the income would be attributable, and which are exempt from taxation or not subject to tax withholding;
- (ii) Entities with residence 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 2011, as amended from time to time (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”);
- (iii) Entities with residence, headquarters, effective management or permanent establishment to which the income would be attributable, and which are exempt from taxation or not subject to tax withholdings;
- (iv) Other entities which do not have residence, headquarters, effective management or permanent establishment to which the income would be attributable.

On each interest payment date, the following information with respect of each one of the beneficiaries mentioned in (i), (ii) and (iii) should be communicated:

- (i) Name and address;

- (ii) Tax identification number (if available);
- (iii) Identification and amount of securities held;
- (iv) Amount of income.

In addition, the international clearing system managing entity shall send the above information to the direct register entity, or its representatives, and should send the information regarding all accounts under its management.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law 193/2005 if the above rules and procedures are not complied with. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005. The refund claim is to be submitted to the direct or indirect register entity of the Public Sector Bonds within 6 months from the date the withholding took place. A special tax form for these purposes was approved by Order (“*Despacho*”) 2937/2014, of the Portuguese Secretary of State for Tax Affairs, published in 2nd Series of Portuguese official gazette no. 37, of 21<sup>st</sup> February, which may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese tax authorities under the general procedures and within a 2 years period after the end of the year where the income was obtained.

#### **Automatic exchange of tax information**

The automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014.

Council Directive 2014/107/EU was transposed to Portuguese national law, on October 2016, by Decree-Law no. 64/2016, of 11 October 2016 (“Portuguese CRS Law”), which amended Decree-Law no. 61/2013, of 10 May 2013, which transposed Directive 2011/16/EU. The Portuguese CRS Law and Decree-Law no. 61/2013, have been amended by Law no. 98/2017, of 24 August 2017.

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.

Portugal has also implemented, through Law no. 82-B/2014, of 31 December 2014, the legal framework based on reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. In addition, Portugal has signed the Intergovernmental Agreement (IGA) with the US on 6 August 2015. The IGA has entered into force in 10 August 2016, and through the Decree-Law no. 64/2016, of 11 October 2016, amended by Law no. 98/2017, of 24 August 2017, Portuguese government approved the complementary regulation required to comply with FATCA. Under the referred legislation the Issuer is

required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities, which, in turn, will report such information to the IRS. In view of the abovementioned regime, 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 Ministerial Order (*Portaria*) no. 302-A/2016, of 2 December 2016, amended by Ministerial Order (*Portaria*) no. 169/2017, of 25 May 2017.

## 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 Public Sector Bonds.

Any such agreement will extend to those matters stated under “*Form of the Public Sector Bonds and Clearing Systems*” and “*Terms and Conditions of the Public Sector 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 Public Sector Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The following restrictions may be amended or supplemented in the relevant Final Terms.

### United States

The Public Sector 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 Public Sector 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.

The Dealer has represented and agreed that it will not offer or sell any Public Sector 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 Public Sector Bonds on a syndicated basis, the relevant lead manager, of all Public Sector Bonds of the Tranche of which such Public Sector Bonds are a part, except in accordance with Rule 903 of Regulation S under the US Securities Act. Accordingly, the 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 Public Sector Bonds, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. The 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 Public Sector Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Public Sector 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. US 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 Public Sector Bonds, an offer or sale of such Public Sector 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 Public Sector 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 from time to time; the “**FIEA**”) and, accordingly, the 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 or sold and will not offer or sell any Public Sector 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 from time to time), 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**

The Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of any Public Sector 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 Public Sector Bonds in, from or otherwise involving the United Kingdom.

### **Italy**

The offering of Public Sector Bonds has not been registered with the *Commissione nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, the Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that, save as set out below, it has not made and will not make an offer of any Public Sector Bonds to the public in the Republic of Italy, and that sales of the Public Sector Bonds in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations; in particular, no Public Sector Bonds may be offered, sold or delivered, nor copies of the Base

Prospectus or of any other document relating to any Public Sector Bonds may be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 1998, as amended from time to time (the “**Financial Services Act**”) and Article 34-ter, paragraph 1 (letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (ii) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Public Sector Bonds or distribution of copies of this Base Prospectus or any other document relating to the Public Sector Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Law, 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, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### **Prohibition of Sales to EEA Retail Investors**

Unless the Final Terms in respect of any Public Sector Bonds specify the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, the Dealer represents, warrants and agrees, 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 Public Sector 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 on insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor, as defined in the Prospectus 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 Public Sector Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Public Sector Bonds.

If the Final Terms in respect of any Public Sector 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**”) the Dealer represents, warrants and agrees, 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 Public Sector Bonds which are subject to the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Public Sector Bonds to the public in that Relevant Member State:

- (a) at any time to 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 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 Public Sector 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 Public Sector Bonds to the public**” in relation to any Public Sector 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 Public Sector Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Public Sector 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) and includes any relevant implementing measure in the Relevant Member State.

### **Portugal**

In relation to the Public Sector Bonds, the Dealer represents and agrees with the Issuer, and each further Dealer appointed under the Programme will be required to represent and agree, that the Public Sector 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 or approval procedures with the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*, “*CMVM*”) is made; regarding any offer or sale of Public Sector 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, and other than in compliance with all such laws and regulations: (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Public Sector 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; (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Public Sector Bonds to the public in Portugal. Private placements addressed by the Issuer 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 Dealer 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 Public Sector 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.

The Dealer agrees that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Public Sector Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefore.

None of the Issuer and the Dealer represents that the Public Sector 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 the Dealer or other persons in relation to a Tranche or Series of Public Sector Bonds whereby the Dealer may agree to provide liquidity in those Public Sector 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 Public Sector 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 Public Sector 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 Public Sector Bonds.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme was duly authorised by (i) resolution of the Board of Directors of the Issuer dated 22 April 2008, renewed by resolution of the Board of Directors of the Issuer dated 28 September 2018 and (ii) the Programme has been subsequently updated by duly authorisations of the Issuer relevant management body, the last update having been duly authorised by a resolution of the Executive Committee of the Issuer dated 6 March 2019, in accordance with the provisions of the Public Sector Bonds Law.

### Listing

In respect of Public Sector Bonds which are intended to be listed, application will be made to Euronext for the admission of Public Sector Bonds issued under the Programme to trading on the regulated market Euronext Lisbon.

### Interbolsa

The Public Sector Bonds have been accepted for settlement through Interbolsa. The appropriate common code (if applicable) and ISIN for each Tranche of Public Sector Bonds will be specified in the relevant Final Terms. If the Public Sector Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

### Conditions for Determining Price

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

### Significant or Material Change

There has been no material adverse change in the prospects of the Issuer since the publication of the Issuer's first Half 2018 Report (Audited consolidated financial statements) and no significant change in the financial information the Issuer and BPI Group since the publication of the Issuer's unaudited consolidated results for the financial year ended 31 December 2018.

### Litigation

On 2 February 2017 BPI informed the market that on 30 January 2017 was notified of a legal action challenging a corporate resolution.

Such legal action challenges the validity of Banco BPI's General Meeting resolution passed on December 13 2016, which approved Banco BPI's Board of Directors proposal to sell to Unitel, S.A. a stakeholding comprised of 26 111 (twenty-six thousand, one hundred and eleven) shares, representing 2 per cent. (two per cent.) of the share capital of Banco de Fomento Angola, S.A., pursuant to the sale and purchase agreement mentioned above. The legal action was filed by 4 individuals who stated that they together held 175 920 shares, representing 0,0121 per cent. of Banco BPI's share capital. Banco BPI understands that the merits relied on to support the invalidity of the resolution do not proceed and will contest the case, within the legal period for such purpose. The legal action is taking place.

The abovementioned legal action and Banco BPI' notification in such action do not suspend the effects of the contested decision.

Save as disclose above, there have been no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past a significant effect on the Issuer's financial position thereof.

### **Third party information**

Where information has 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 Issuer calculates its market share data using official sources of information, governmental or otherwise (as applicable). Where no official sources exist, the Issuer relies on its own estimates.

### **Accounts**

Deloitte & Associados SROC, S.A., associated with the Portuguese Association of the Chartered Accountants ("*Ordem dos Revisores Oficiais de Contas*") under no. 43 and registered with the CMVM under no. 20161389, and Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*") with number 183 and registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, nº 1, 3º, 1069-316 Lisbon, Portugal, have audited the consolidated accounts of the Issuer in accordance with generally accepted auditing standards in Portugal and the International Auditing Standards.

The consolidated accounts for the financial years ended 31 December 2016 and 31 December 2017, audited by Deloitte & Associados SROC, S.A., and for the first half of 2018, audited by Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. were prepared according to International Accounting Standards (IAS) and with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board ("*IASB*") and endorsed by the European Union.

### **Documents Available**

Copies of the following documents will be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative and the Paying Agents for the time being:

- (a) The Portuguese version of the Articles of Association of the Issuer;
- (b) The Portuguese version of the Issuer's consolidated Annual Report in respect of the financial years ended on 31 December 2016 and on 31 December 2017;
- (c) The Portuguese version of the Issuer's first half 2018 interim consolidated Report;
- (d) the Portuguese version of the results presentation with the consolidated results in respect of 2018 (unaudited results);

- (e) the Programme Agreement;
- (f) the Agency and Payments Procedures;
- (g) the Common Representative Appointment Agreement;
- (h) this Base Prospectus and any supplement thereto;
- (i) any relevant Final Terms (save that Final Terms relating to Public Sector 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 Public Sector Bonds and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Public Sector Bonds and identity); and
- (j) in the case of an issue of Public Sector Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document);
- (k) the Issuer's Investor Presentation disclosed to the market on 27 November 2018.

### **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.bancobpi.pt](http://www.bancobpi.pt)) and the official website of the CMVM ([www.cmvm.pt](http://www.cmvm.pt)).

### **Post issuance reporting**

Any information which the Issuer is required by law or regulation to provide in relation to itself or securities issued by it, including the Public Sector Bonds, will be made available at [www.cmvm.pt](http://www.cmvm.pt) and at [www.bancobpi.pt](http://www.bancobpi.pt). The Issuer publishes quarterly investor reports on the outstanding Public Sector Bonds, including information on the Cover Pool and the applicable overcollateralisation. Such reports are available at: <http://bpi.bancobpi.pt/index.asp?riIdArea=AreaDivida&riChgLng=1&riLang=en&riId=ProgramaEmissoesSP2&riIdTopo=>.

The following information could be found on the December 2018 Investor Report:

1. Current Credit Ratings		Long Term		Short Term	
Banco BPI Public Sector Covered Bond Programme		A1 (Moody's)		n/a	
Banco BPI		Baa2 / BBB- / BBB (Moody's / S&P / Fitch)		P-2 / A-3 / F2 (Moody's / S&P / Fitch)	
Portugal		Baa3 / BBB- / BBB / BBB (Moody's / S&P / Fitch / DBRS)		P-1 / A-3 / F2 / R-2H (Moody's / S&P / Fitch / DBRS)	

2. Covered Bonds	Issue Date	Coupon	Maturity Date	Soft Bullet Date <sup>1</sup>	Remaining Term (years)	Nominal Amount (EUR)
<b>Covered Bonds Outstanding</b>					<b>4,21</b>	<b>600.000.000,00</b>
<b>Private Placements</b>						<b>600.000.000,00</b>
Series 3 (ISIN PTBBPROE0032)	07/10/2015	Floating	07/10/2022	07/10/2023	4,02	100.000.000,00
Series 4 (ISIN PTBBPGOE0035)	15/06/2016	Floating	15/06/2023	15/06/2024	4,71	150.000.000,00
Series 5 (ISIN PTBBPGOE0038)	20/10/2017	Floating	20/10/2022	20/10/2023	4,06	350.000.000,00
<b>CRD Compliant (yes/no)</b>						<b>Yes</b>

3. Asset Cover Test	Remaining Term (years)	Nominal Amount (EUR)
<b>Public Sector Credit Pool</b>	<b>10,90</b>	<b>749.746.105,71</b>
<b>Other Assets<sup>2</sup> (cash, deposits and securities)</b>	<b>0,00</b>	<b>15.280.676,76</b>
Cash and deposits	0,00	15.280.676,76
Other securities	0,00	0,00
<b>Total Cover Pool</b>	<b>10,68</b>	<b>765.026.782,47</b>
% of ECB eligible assets	10,90	98,00%
<b>Current overcollateralisation<sup>3</sup> (%)</b>		<b>27,50%</b>
<b>Committed overcollateralisation (%)</b>		<b>7,00%</b>
<b>Required overcollateralisation (Moody's) (%)</b>		<b>12,00%</b>
<b>Legal minimum overcollateralisation (%)</b>		<b>0,00%</b>

4. Other Triggers	
Net Present Value of Assets (incl. derivatives) <sup>4</sup>	813.133.803,38
Net Present Value of Liabilities (incl. derivatives) <sup>4</sup>	615.805.891,32
Net Present Value of Assets (incl. derivatives) - Net Present Value of Liabilities (incl. derivatives) >=0	OK
Net Present Value of Assets (incl. derivatives) - Net Present Value of Liabilities (incl. derivatives) >=0 (stress of +200 bps)	OK
Net Present Value of Assets (incl. derivatives) - Net Present Value of Liabilities (incl. derivatives) >=0 (stress of -200 bps)	OK
Other Assets <= 20% (Credit Pool + Other Assets)	OK
Deposits with a remaining term > 100 days <= 15% Covered Bonds Nominal	OK
Estimated Interest from Public Sector Credit and Other Assets - Estimated Interest from Covered Bonds >= 0	OK
Public Sector Credit + Other Assets WA Remaining Term - Covered Bonds WA Remaining Term >= 0	OK

5. Currency Exposure	
<b>Cover Pool includes:</b>	
Assets in a currency different than Euro (yes/no)	No
Liabilities in a currency different than Euro (yes/no)	No
Cross currency swaps (yes/no)	No
<b>Currency Exposure Detail</b>	n/a

## 6. Public Sector Credit Pool

### Main Characteristics

Number of loans	587
Original principal balance (EUR)	1.166.657.435,11
Current principal balance (EUR)	749.746.105,71
Average original principal balance per loan (EUR)	1.987.491,37
Average current principal balance per loan (EUR)	1.277.250,61
Current principal balance of the 5 largest borrowers (EUR)	304.132.659,92
Weight of the 5 largest borrowers (current principal balance) (%)	40,56%
Current principal balance of the 10 largest borrowers (EUR)	386.928.040,18
Weight of the 10 largest borrowers (current principal balance) (%)	51,61%
Weighted average seasoning (months)	75
Weighted average remaining term (months)	131
Weighted average interest rate (%)	1,55%
Weighted average spread (%)	1,46%
Max maturity date (YYYY-MM-DD)	08/12/2048

Interest Rate Type	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
Fixed	15	2,56%	36.116.795,53	4,82%
Floating	572	97,44%	713.629.310,18	95,18%

Repayment Type	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
Annuity / French	356	60,65%	276.248.087,12	36,85%
Linear	0	0,00%	0,00	0,00%
Increasing instalments	0	0,00%	0,00	0,00%
Bullet	23	3,92%	12.194.697,26	1,63%
Interest-only	0	0,00%	0,00	0,00%
Other	208	35,43%	461.303.321,33	61,53%

### 6. Public Sector Credit Pool (continued)

Seasoning	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
Up to 3 months	0	0,00%	0,00	0,00%
3 - 6 months	1	0,17%	2.490.000,00	0,33%
6 - 9 months	28	4,77%	30.626.350,38	4,08%
9 - 12 months	5	0,85%	13.070.863,53	1,74%
12 - 18 months	13	2,21%	21.169.558,94	2,82%
18 - 24 months	26	4,43%	38.665.024,10	5,16%
24 - 36 months	22	3,75%	128.861.158,26	17,19%
36 - 48 months	15	2,56%	56.124.494,89	7,49%
48 - 60 months	8	1,36%	36.766.718,02	4,90%
More than 60 months	469	79,90%	421.971.937,59	56,28%

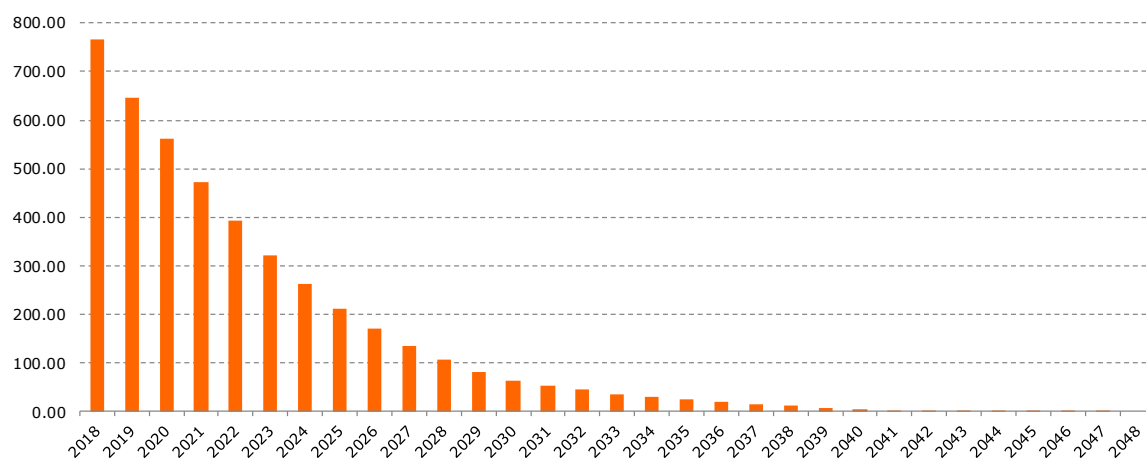
  

Remaining Term	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
Up to 3 months	13	2,21%	1.162.768,44	0,16%
3 - 6 months	30	5,11%	6.244.503,60	0,83%
6 - 12 months	8	1,36%	650.986,42	0,09%
12 - 18 months	25	4,26%	9.815.494,92	1,31%
18 - 24 months	18	3,07%	2.565.098,80	0,34%
24 - 36 months	21	3,58%	10.819.751,57	1,44%
36 - 48 months	32	5,45%	21.739.605,94	2,90%
48 - 60 months	49	8,35%	68.657.952,89	9,16%
60 - 72 months	55	9,37%	24.242.198,07	3,23%
72 - 84 months	57	9,71%	53.358.225,35	7,12%
84 - 96 months	53	9,03%	91.492.177,85	12,20%
96 - 108 months	44	7,50%	19.899.143,99	2,65%
108 - 120 months	44	7,50%	68.898.327,37	9,19%
More than 120 months	138	23,51%	370.199.870,50	49,38%

Debtor Type	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
Autonomous Regions	6	1,02%	112.682.819,26	15,03%
Municipalities	579	98,64%	552.517.014,38	73,69%
State Guarantee	2	0,34%	84.546.272,07	11,28%
Debtor Rating <sup>5</sup>	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
BBB	7	1,19%	91.639.829,00	12,22%
Without Rating	580	98,81%	658.106.276,71	87,78%
Geographical Distribution	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
<b>Portugal</b>	<b>587</b>	<b>100,00%</b>	<b>749.746.105,71</b>	<b>100,00%</b>
Lisboa	52	8,86%	276.816.486	36,92%
Norte	149	25,38%	136.333.592	18,18%
Centro (P)	248	42,25%	130.581.172	17,42%
Região Autónoma dos Açores	12	2,04%	63.451.976	8,46%
Região Autónoma da Madeira	5	0,85%	54.885.081	7,32%
Alentejo	85	14,48%	52.336.070	6,98%
Algarve	36	6,13%	35.341.730	4,71%
Delinquencies <sup>6</sup>	Number of Loans	Number of Loans (%)	Loan Amount (EUR)	Loan Amount (%)
> 30 to 60 days	0	0,00%	0,00	0,00%
> 60 to 90 days	0	0,00%	0,00	0,00%
> 90 days	0	0,00%	0,00	0,00%

#### Projected Outstanding Amount<sup>a</sup>

EUR millions



#### Amortisation Profile

Date	Principal Balance (EUR)
Sep/18	765.026.782,47
Sep/19	646.944.281,68
Sep/20	561.473.260,98
Sep/21	472.548.503,05
Sep/22	393.640.181,38
Sep/23	321.342.043,08
Sep/24	263.036.597,44
Sep/25	212.006.904,18
Sep/26	170.964.395,55
Sep/27	136.352.514,32
Sep/28	106.781.419,58
Sep/29	82.664.417,26
Sep/30	62.577.656,94
Sep/31	52.839.213,19
Sep/32	44.648.290,83
Sep/33	36.777.981,29
Sep/34	30.268.997,66
Sep/39	8.427.998,83
Sep/44	42.857,13
Sep/49	0,00

<sup>a</sup>Includes public sector credit pool and other assets; assumes no prepayments (constant prepayment rate of 0%)

#### 7. Expected Maturity Structure

In EUR	0-1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	>10 years
Public Sector Credit <sup>b</sup>	102.801.824,03	85.471.020,70	88.924.757,93	78.908.321,67	72.298.138,30	214.560.623,50	106.781.419,58
Other Assets	15.280.676,76	0,00	0,00	0,00	0,00	0,00	0,00
<b>Total Cover Pool</b>	<b>118.082.500,79</b>	<b>85.471.020,70</b>	<b>88.924.757,93</b>	<b>78.908.321,67</b>	<b>72.298.138,30</b>	<b>214.560.623,50</b>	<b>106.781.419,58</b>
<b>Total Covered Bonds</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>600.000.000,00</b>	<b>0,00</b>	<b>0,00</b>

**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 Public Sector Bonds or effect transactions with a view to supporting the market price of the Public Sector Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

**Rating of the Public Sector Bonds**

Certain Series of Public Sector Bonds to be issued under this Base Prospectus may be rated or unrated. Where an issue of Public Sector 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 a relevant Series of Public Sector Bonds will be issued by a credit rating agency established in the European Union and registered the CRA Regulation will be disclosed in the Final Terms.



## 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 encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Public Sector Credit.

“**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 19 June, 2008 and made and agreed by Banco BPI, S.A. (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer, as amended.

“**Agent**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto.

“**Arranger**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto.

“**Banco BPI**” or “**BPI**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, 4100-476 Porto.

“**Bank of Portugal Regulations**” means the legislation passed by the Bank of Portugal regulating certain aspects of the Public Sector Bonds Law, namely Notice 5/2006, Notice 6/2006, Instruction 13/2006, Notice 7/2006 and Notice 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

“**Base Prospectus**” means this base prospectus dated 19 March 2019, prepared in connection with the Programme.

“**BPI Group**” means the Issuer and its subsidiaries.

“**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 TARGET System is open.

“**Calculation Agent**” except if and where defined otherwise in this Base Prospectus, has the meaning ascribed to in the Final Terms.

“**Central de Valores Mobiliários**” means the Portuguese Centralised System of Registration of Securities.

“**Clearing System**” means Interbolsa.

“**Clearstream, Luxembourg**” means Clearstream Banking société anonyme, Luxembourg.

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

“**Collateralisation Percentage**” means 107 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that the Collateralisation

Percentage shall not, for so long as there are Public Sector Bonds outstanding and rated by Moody's, be reduced by the Issuer below 107 per cent..

**“Common Representative”** means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Public Sector Bonds pursuant to Article 14 of the Public Sector Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London, England, NW1 6AA, United Kingdom.

**“Common Representative Appointment Agreement”** means the agreement dated 19 June 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, as amended from time to time.

**“Condition”** means a reference to a particular numbered condition set out in the “Terms and Conditions of the Public Sector Bonds.

**“Cover Pool”** means the pool of assets maintained by the Issuer and allocated to the issue of Public Sector Bonds under the Programme, held to the benefit of the holders of Public Sector Bonds and the Other Preferred Creditors, and including the Public Sector 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, Lda., member of the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”) with number 183 and, and registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, n° 1, 3°, 1069-316 Lisbon, Portugal.

**“Cover Pool Monitor Agreement”** means the agreement dated 19 June, 2008 entered into between the Issuer and the Cover Pool Monitor, as amended from time to time.

**“CRA Regulation”** means Regulation (EC) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended from time to time;

**“CRD IV”** means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investments firms, as amended from time to time;

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

**“CRR”** means Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms, as amended from time to time.

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

- (i) if **“Actual/Actual (ICMA)”** 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/Actual (ISDA)”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year

- divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
  - (iv) 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;
  - (v) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
  - (vi) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

“**Dealer**” means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, Porto.

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

“**Distribution Compliance Period**” means, in respect of Public Sector Bonds held through Euroclear and Clearstream, Luxembourg, the period that ends 40 days after the completion of the distribution of each Tranche of Public Sector Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue).

“**EBA**” means the European Banking Authority.

“**EC**” means the European Commission.

“**ECB**” means the European Central Bank.

“**EEA**” means the European Economic Area.

“**ESMA**” means the European Securities and Markets Authority.

“**EU**” means the European Union.

“**Euro**”, “**€**” or “**euro**” means the lawful currency of Member States of the European Union that adopt the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Council Regulation (EC) No. 974/98, of 3 May 1998, on the introduction of the euro, as amended from time to time.

“**Euroclear**” means Euroclear Bank S.A./N.V.

“**Euronext Lisbon**” means the regulated market managed by Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A.

“**Eurosystem**” means the monetary authority which comprises the European Central Bank and the national central banks of the EU Member States whose currency is the Euro.

“**Final Terms**” means, in relation to each Tranche, the applicable final terms attached to, or endorsed on, such Public Sector Bonds.

“**Final Settlement Date**” means the date which the financial settlement becomes definitive and irrevocable after the Bank of Portugal’s confirmation to Interbolsa;

“**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.

“**GDP**” means gross domestic product.

“**Hedge Counterparties**” means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Public Sector Bonds Law.

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

“**IGCP**” means the Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E.

“**IMF**” means the International Monetary Fund.

“**INE**” means the Statistics Portugal.

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

“**Instruction 13/2006**” means the regulatory instruction no. 13/2006 issued by the Bank of Portugal and published on 15 November 2006, relating to certain information duties applicable in relation to the issue of public sector bonds in accordance with the Public Sector 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 Public Sector Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

“**ISDA**” means the International Swaps and Derivatives Association Inc.

“**Issue Date**” means the date so specified in the applicable Final Terms being, in respect of any Public Sector Bond, the date of issue and purchase of such Public Sector Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

“**Issuer**” means Banco BPI, S.A.

“**Maturity**” means the final legal maturity of any outstanding Public Sector Bonds, Public Sector Credits, Hedging Contracts or Other Assets, as applicable;

“**Moody's**” means Moody's Investors Service Ltd, which is registered with the European Securities and Markets Authority under the CRA Regulation.

“**Non-Performing Public Sector Credits**” means, with respect to a Public Sector Credit, that such Public Sector 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.

“**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 public sector bonds in accordance with the Public Sector Bonds Law.

“**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 public sector bonds in accordance with the Public Sector Bonds Law.

“**Notice 7/2006**” means the regulatory notice (“Aviso”) no. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the issue of public sector bonds in accordance with the Public Sector Bonds Law.

“**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 related credit institution which has issued public sector bonds issued in accordance with the Public Sector Bonds Law.

“**Other Assets**” means all assets other than Public Sector Credits and Hedging Contracts which comply with the eligibility criteria established in the Public Sector 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 in 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

other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal;

- (c) For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts;

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

“**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 Public Sector Bonds under the Agency and Payments Procedures.

“**Portuguese Resolution Fund**” means the Portuguese resolution fund, as created by Decree-law no. 31-A/2012, of 10 February 2012.

“**Portuguese Commercial Companies Code**” means the commercial companies code approved by Decree-Law no. 262/86, dated 2<sup>nd</sup> September 1986, as amended from time to time.

“**Portuguese Securities Code**” means Decree-Law no. 486/99, of 13 November 1999, as amended from time to time.

“**Principal Amount Outstanding**” means in respect of a Public Sector Bond the principal amount of that Public Sector Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Public Sector Bonds in respect thereof.

“**Programme**” means the € 2,000,000,000 public sector bonds programme established on 19 June, 2008 for the issuance of Public Sector Bonds by the Issuer as described in this Base Prospectus.

“**Programme Agreement**” means the agreement dated 19 June, 2008 entered into between the Issuer and the Dealers, as amended 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 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 Public Sector 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 Public Sector Bonds of all Series then outstanding.

“**Prospectus Directive**” means Directive no. 2003/71/EC, of the European Parliament and of the Council, of 4 November 2003, as amended from time to time and implemented through delegated regulations.

“**Prospectus Regulation**” means Commission Regulation (EC) no. 809/2004, of 29 April 2004, as amended from time to time.

“**Public Sector Bond**” means any public sector bond issued by the Issuer pursuant to the Public Sector Bonds Law in the form specified in the applicable Final Terms and “**Public Sector Bonds**” shall be construed accordingly.

“**Public Sector Bonds Law**” means the Portuguese legal framework applicable to the issuance of public sector bonds, enacted by Decree-Law no. 59/2006, of 20 March 2006, as amended.

“**Public Sector Credit**” means credits receivables over the central administrations, regional or local authorities of any EU Member State or credits receivables guaranteed by the central administrations, regional or local authorities of any EU Member State.

“**Reference Price**” means the reference price appearing in the relevant Final Terms.

“**Register**” means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Public Sector Bonds Law and the Bank of Portugal Regulations;

“**Registered Public Sector Bond**” means any definitive Public Sector Bond in registered form.

“**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 Public Sector Bonds in accordance with Condition 11 (*Notices*).

“**Relevant Screen Page**” has the meaning ascribed to in the Final Terms.

**“Reserved Matter”** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Public Sector 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 Public Sector Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Public Sector Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Public Sector Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Public Sector 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 Public Sector Bonds of all or of a given Series; (vi) any other provided for pursuant to Portuguese law; or (vii) to amend this definition.

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

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

**“Series”** means a Tranche of Public Sector Bonds together with any further Tranche or Tranches of Public Sector 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.

**“Single Resolution Board”** means resolution authority within the Banking Union established by the SRM Regulation.

**“Single Resolution Mechanism”** means the central institution for bank resolution in the EU, which is the second pillar of the banking union and which applies to banks covered by the Single Supervisory Mechanism.

**“SRM Regulation”** means Regulation (EU) no. 806/2014, of 15 July 2014, as amended.

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

**“Substitute Credit Institution”** means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Public Sector Bonds and to ensure the payments of the amounts due to the holders of such Public Sector Bonds.

**“Stock Exchange”** means Euronext Lisbon or any other stock exchange where Public Sector 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 Public Sector Bonds, be references to the stock exchange or stock exchanges on which such Public Sector Bonds are from time to time, or are intended to be, listed.

**“S&P”** Standard & Poor’s Credit Market Services Europe Limited, which is registered with the European Securities and Markets Authority under the CRA Regulation.

**“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 System”** means the Trans-European Automated Real-time Gross Settlement Express Transfer Payment System which utilises a single shared platform and which was launched on 19 November 2007 (TARGET 2).

**“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 Portuguese Tax and Customs Authority, 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 Public Sector Bonds, the terms and conditions to be endorsed on or applicable to the Public Sector Bonds and any reference to a particular numbered Condition shall be construed in relation to the Public Sector Bonds accordingly.

“**Tranche**” means Public Sector Bonds which are identical in all respects (including as to listing).

“**Treaty**” means the Treaty on the Functioning of the European Union, as amended from time to time.

“**US**” or “**USA**” means the United States of America.

“**U.S.\$**”, “**USD**” or “**US dollars**” means United States dollars, the lawful currency of the United States of America.

“**UCITS Directive**” means Directive no. 2009/65/EC, of the European Parliament and of the Council, of 13 July 2009, relating to undertakings for collective investment in transferable securities, as amended from time to time.

“**Value**” means:

- (a) in relation to a Public Sector Credit, for the purpose of the Collateralisation Percentage, an amount equal to the book value of such Public Sector Credit entered on the Register, together with any matured and accrued interest;
- (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.

## ANNEX – ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information prepared in accordance with the International Financial Reporting Standards (IFRS), BPI uses a number of indicators in the analysis of the performance and financial position which are classified as Alternative Performance Indicators (APM) in accordance with the guidelines set by the European Securities and Markets Authority or ESMA about the disclosure of Alternative Performance Measures by entities published on 5 October 2015 (ESMA / 2015/ 1415). These indicators, which were not audited, are considered additional disclosures and in no case replace the financial information prepared in accordance with the IFRS. In addition, the way the Issuer defined and calculated these indicators may differ from the way similar indicators are computed by other companies and may therefore not be comparable. The following is a list of alternative performance indicators used by the Issuer, together with a reconciliation between certain management indicators and the consolidated financial statements and their notes prepared in accordance with IFRS.

ESMA Guidelines define an APM as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Following the recommendations of ESMA Guidelines, the Issuer has copied hereunder its latest list of APMs.

### EARNINGS, EFFICIENCY AND PROFITABILITY INDICATORS

**Gross income** = net interest income + Dividend income + Net fee and commission income + Equity accounted income + Gains/(losses on financial assets and liabilities and other + Other operating income and expenses

**Commercial banking gross income** = net interest income + Dividend income + Net fee and commission income + Equity accounted income excluding the contribution of stakes in African banks

**Operating expenses** = Staff expenses + Other administrative expenses + Depreciation and amortization

**Adjusted Operating expenses** = Staff expenses excluding cost with early retirements and voluntary terminations and (only in 2016) gains with the revision of the Collective Labour Agreement (ACT) + Other administrative expenses (recurring) + Depreciation and amortization

**Net operating income** = Gross income - Operating expenses

**Net income before income tax** = Net operating income + Impairment losses and other provisions + Gains and losses in other assets

**Cost-to-income ratio (efficiency ratio)<sup>30</sup>** = Operating expenses / Gross income

**Adjusted Operating expenses-to-commercial banking gross income<sup>31</sup>** = Operating expenses, excluding costs with early-retirements and voluntary terminations and (only in 2016) gains with the revision of the Collective Labour Agreement (ACT) / Commercial banking gross income

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<sup>30</sup> Ratio referring to the last 12 months, except when indicated otherwise. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, the cases in which it will be clearly marked

<sup>31</sup> Ratio referring to the last 12 months, except when indicated otherwise. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, the cases in which it will be clearly marked

**Return on Equity (ROE)**<sup>32</sup> = Net income for the period / Average value in the period of shareholders' equity attributable to BPI shareholders after deduction of the fair value reserve (net of deferred taxes) related to financial assets available for sale

**Return on Tangible Equity (ROTE)**<sup>33</sup> = Net income for the period / Average value in the period of shareholders' equity attributable to BPI shareholders after deduction of intangible net assets and other comprehensive income (reserves)

**Return on Assets (ROA)**<sup>34</sup> = (Net income attributable to BPI shareholders + Income attributable to non-controlling interests - preference shares dividends paid) / Average value in the period of net total assets

**Unitary intermediation margin** = Loan portfolio average interest rate, excluding loans to Employees - Deposits average interest rate

## **BALANCE SHEET AND FUNDING INDICATORS**

**On-balance sheet Customer resources** = Deposits + Capitalisation insurance of fully consolidated subsidiaries + Participating units in consolidated mutual funds

*Note: The amount of on-balance sheet Customer resources is not deducted from the applications of off-balance sheets products (mutual funds and pension plans) in on-balance sheet products.*

Being:

- Deposits = Sight and other deposits + Term and savings deposits + Accrued interest + Retail bonds (Fixed / variable rate bonds and structured products placed with Customers + Deposits certificates + Subordinated bonds placed with Customers)

- Capitalisation insurance of fully consolidated subsidiaries (BPI Vida e Pensões sold on Dec.17) = Unit links capitalisation insurance and “Aforro” capitalisation insurance and others (Technical provisions + Guaranteed rate and guaranteed retirement capitalisation insurance)

**Assets under management** = Mutual funds + Capitalisation insurance + Pension plans

Being:

- Mutual funds = Unit trust funds + Real estate investment funds + Retirement-savings and equity-savings plans (PPR and PPA) + Hedge funds + Assets from the funds under BPI Suisse management + Third-party unit trust funds placed with Customers

- Capitalisation Insurance = Third-party capitalisation insurance placed with Customers

1. Pension plans = pension plans under BPI management (includes pension plans of BPI Group)

*(i) Amounts deducted from participating units in the Group banks' portfolios and from off-balance sheet products investments (mutual funds and pension plans) in other off-balance sheet products.*

*(ii) Following the sale of BPI Vida e Pensões in Dec.17, the capitalisation insurance placed with BPI's Customers are recorded off balance sheet, as "third-party capitalisation insurance placed with Customers", and pension funds management is excluded from BPI's consolidation perimeter.*

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<sup>32</sup> Ratio referring to the last 12 months, except when indicated otherwise. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, the cases in which it will be clearly marked

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**Subscriptions in public offerings** = Customers subscriptions in third parties' public offerings

**Total Customer Resources** = On-balance sheet Customer Resources + Assets under management + Subscriptions in public offerings

**Gross loans to customers** = Gross loans and advances to customers (financial assets at amortized cost), excluding other assets (guarantee accounts and others) + Gross debt securities issued by Customers (financial assets at amortized cost)

Note: gross loans = performing loans + loans in arrears + receivable interests

**Net loans to Customers** = Gross loans to customers – Impairments for loans to customers

**Loan-to-deposit ratio** (CaixaBank criteria) = (Net loans to Customers - Funding obtained from the EIB, which is used to provide credit) / Deposits and retail bonds

#### **ASSET QUALITY INDICATORS**

**Impairments for loans and guarantees as % of the loan portfolio**<sup>35</sup> = Impairment losses and provisions for loans and guarantees / Average value in the period of the performing loan portfolio

Being:

2. Impairment losses and provisions for loans and guarantees = Impairments or impairments reversal from financial assets not measures at fair value through profit or loss relating to loans and advances to customers and debt securities issued by Customers (financial assets at amortised cost), before deducting recovery of loans, interest and expenses + provisions or provisions reversals for commitments and guarantees

**Cost of credit risk as % of the loan portfolio**<sup>36</sup> = (Impairment losses and provisions for loans and guarantees, net - Recovery of loans, interest and expenses) / Average value in the period of the performing loan portfolio

Being:

3. Impairment losses and provisions for loans and guarantees = Impairments or impairments reversal from financial assets not measures at fair value through profit or loss relating to loans and advances to customers and debt securities issued by Customers (financial assets at amortised cost), before deducting recovery of loans, interest and expenses + provisions or provisions reversals for commitments and guarantees

**Performing loans portfolio** = Gross customer loans - (Overdue loans and interest + Receivable interests and other)

**NPE ratio** = Ratio of non-performing exposures (NPE) according to EBA criteria (prudential perimeter)

**Coverage of NPE** = [Impairments for loans and advances to customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] / Non-performing exposures (NPE)

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<sup>35</sup> Ratio referring to the last 12 months, except when indicated otherwise. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, the cases in which it will be clearly marked

<sup>36</sup> Ratio referring to the last 12 months, except when indicated otherwise. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, the cases in which it will be clearly marked

**Coverage of NPE by impairments and associated collateral** = [Impairments for loans and advances to customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] + Collateral associated to NPE ] / Non-performing exposures (NPE)

**Non performing loans ratio (“crédito dudoso”; Bank of Spain criteria)** = Non performing loans (Bank of Spain criteria) / (Gross customer loans + guarantees)

**Non performing loans (Bank of Spain criteria) coverage ratio** = [Impairments for loans and advances to customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] / Non performing loans (Bank of Spain criteria)

**Coverage of non performing loans (Bank of Spain criteria) by impairments and associated collateral** = [Impairments for loans and advances to customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] + Collateral associated to credit] / Non performing loans (Bank of Spain criteria)

**Impairments cover of foreclosed properties** = Impairments for real estate received in settlement of defaulting loans / Gross value of real estate received in settlement of defaulting loans

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