



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**”) is an authorised credit institution for the purposes of Decree-Law no. 59/2006, of 20 March 2006 (as amended from time to time, 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 12 October 2017 (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 (the “**Prospectus Directive**” whose expression means Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU (the “**2010 PD Amending Directive**”) and others from time to time, to the extent implemented in the Relevant Member State), of Article 26 of the Commission Regulation (EC) no. 809/2004 (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 and further application has been made to Euronext for the admission of Public Sector Bonds issued under the Programme to trading on the regulated market Euronext (“**Euronext Lisbon**”) or any other regulated market for the purposes of Directive no. 2004/39/EC of the European Parliament and of the Council of 21 April 2004, as amended from time to time, on markets in financial instruments. 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* or other regulated market. The Programme provides that Public Sector Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted 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

12 October 2017

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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, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**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 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (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.

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.

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

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 (“*privilegio 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 primarily based and secured by the Public Sector Credits included in the Cover Pool, involves also 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.

Factors that may affect the Issuer’s ability to fulfil its obligations under Public Sector Bonds issued under the Programme

Global Financial Volatility

The Issuer's performance is reliant on 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 put into practice 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. Last year, the monetary policy of the main central banks remained strongly accommodative, but different stages of the economic cycle of the developed economies entailed a divergent position of the monetary policy stance. After a second upward movement in its key rates in December 2016,

the U.S. Federal Reserve (“**Fed**”) decided for two additional raises in March and June 2017, with a significant probability of a third raise occurring until the end of the year. Moreover, the Fed has already outlined the process of balance sheet normalization, possibly beginning in 2018. Meanwhile, the European Central Bank (“**ECB**”) has maintained the ultra-accommodative nature of its policy given the undershoot in inflation and inflation expectations, despite the recent better prospects on economic growth in the euro-area. Additionally, political factors have been confounding expectations and constraining the outlook, adding uncertainty. There are still relevant doubts relating to the EU-UK negotiations regarding the Brexit process; at the same time, other relevant factors, like an upcoming early Italian election, remain a source of uncertainty. Also relevant is the prospect for fiscal policy in the US, where the initial expectations on the plans of the current administration are so far not being met.

Despite the efforts of Governments and central banks, almost ten years after the onset of the international financial crisis, the global economic situation continues to be characterized by slow growth, and low, albeit increasing, inflation. Additionally, high debt levels remain in several economies, both at public and private sector level, and are also restraining aggregate demand growth and hindering the economy’s response to ultra-loose monetary conditions.

There is now a more positive mood, particularly regarding the euro-area’s economic outlook: specifically, the fading out of some political upheavals (the French, Dutch and British elections held in the first half of 2017) gave room to a more optimistic view. However, on the other side of the Atlantic, the high expectations of global consensus about the effectiveness of the United States President’s looser fiscal policy may eventually be disappointed; additionally, final results will also depend on the Fed’s stance that would become much stricter if the United States President’s policies are perceived as inflationary. 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.

In the Eurozone, the speculation about future monetary policies is still present; the expected start of ECB tapering in 2018 will probably cause some volatility, with more negative impact in the peripherals perceived to be more vulnerable, such as Portugal. In this case, the sovereign risk premium would be pressured with negative implications for financing costs internally. 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. Nevertheless, it seems that the impact of this scenario on Portugal would now have a lesser negative effect, due to the continued fiscal consolidation and resulting decrease in debt yield spreads.

Euro-zone debt crisis

The instability that affected the euro-zone sovereign debt markets since 2010 has abated and peripheral markets risk premium (notably Portugal, Spain, Italy and Ireland) have returned to levels more in line with the ones experienced prior to the debt crisis. Comparing to the 2010-2012 debt crises in Europe, the European institution framework looks now more robust and capable to withstand adverse shocks that may come from this process. Both Ireland and Portugal ended with success their external financing programs with the European Commission (the “**EC**”), the ECB and the International Monetary Fund (the “**IMF**”) (the EC together with the ECB and the IMF, the “**Troika**”) and are now issuing regularly on the sovereign debt

market; fiscal consolidation continued in peripheral markets and several structural reforms have been enacted in the more vulnerable economies, including Spain and Italy; 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. But the main factor behind the sustained fall of risk premium in the peripheral countries was the implementation of the Public Sector Purchase Programme by the ECB since March 2015 and extended until December 2017. Despite this support, the increasing strength of populist political forces in several European countries led Governments to change their stance and favour more expansionary fiscal policies. In some cases previous reforms or expenditure cuts which were implemented in order to render public accounts more sustainable have been reverted, causing some worries among some market participants.

Additionally, the banking sector problems aggravated in 2016, especially in Italy, where non-performing loans (“**NPLs**”) are particularly high and some banks had to receive public financial support. In Portugal, the delay in the process of sale of Novo Banco, S.A. (“**Novo Banco**”) was a pending question aggravating the country’s risk perception due to uncertainty regarding the potential operation’s costs for the public sector. In a hypothetical scenario of huge financial instability, which seems less likely in the near term, a more disruptive framework might return, and create difficulties in the access of peripheral markets institutions to the international capital markets. In the case of Portugal, the eligibility of public debt to participate in the Public Sector Purchase Programme depends on maintaining an investment grade rating, which is currently only assigned by one of the credit rating agencies recognized by the ECB, DBRS Ratings Limited (“**DBRS**”).

Uncertainty has diminished in 2017, chiefly due to the acceleration of economic activity and the apparent progress in fiscal consolidation. There is now a more positive view regarding the Portuguese fiscal situation, of which the exit from the excessive deficit procedure is a clear sign: the budget deficit stood at 2 per cent. in 2016, resulting in a cumulative consolidation of 9.2 p.p. of the GDP since the 11.2 per cent. deficit posted in 2010. Externally, the evolution of the Euro-zone is allowing for a more benign scenario, helping Portuguese exports. However, despite the progresses seen, the Portuguese economy continues vulnerable to external shocks. Indeed, the apparent growth revival in the Eurozone countries may lead to further speculation about the pace of ECB tapering, pressuring the sovereign’s risk premium. Economic growth might also disappoint if external risks regarding global demand are to materialize. Additionally, the upward interest rate cycle by the U.S. Federal Reserve might eventually bring volatility and instability to the international financial markets, with an impact on the Issuer. Financial instability may also arise due to the intensification of geopolitical risks, possibly fuelled by the recent North-American presidency.

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 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

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 were 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. 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 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.¹, 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 particular emphasis to investment whose contraction was particularly

¹ Source: Instituto Nacional de Estatística ("INE") data and the Issuer's calculations.

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.² 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 historical the historical pattern.

Since 2014, Portugal returned to growth, advancing 0.9 per cent. in that year, 1.6 per cent. in 2015, and 1.4 per cent. in 2016. The end of last year and the beginning of 2017 have brought a more optimistic view, with GDP growing 2.8 per cent. year-on-year (“y-o-y”) in Q1 2017. In the whole of 2017, both the Bank of Portugal and the IMF expect a 2.5 per cent. growth, above the 1.8 per cent. Government forecast. Unemployment decreased steadily in this period: the unemployment rate was 8.8 per cent. in Q2 2017. Near term growth prospects have improved considerably, as the domestic economy is benefiting from the improved momentum in external demand (especially euro-zone countries), low oil prices and ultra-expansionary monetary policy, in addition to specific domestic factors that include the surge in activities related with the tourism sector. In 2017, domestic demand should contribute positively to growth, especially private consumption considering the expected increase in disposable income (in particular due to the restitution of salaries to public service workers and pensions approved in 2016, and to have their fullest effects in 2017) and the improvement seen in the labour market. Foreign demand is also expected to contribute positively to growth, driven by the expected normalization of fuel exports (after the technical stoppage on the main refinery at the beginning of 2016), the expected stabilization of the economic situation of Angola, and also due to across the board improvements in the external competitiveness of Portuguese sales abroad, apparent through an over performance of goods and services exports and visible on market share gains.

Nevertheless, there are several obstacles that may prevent a more positive and sustainable scenario to materialize and they are closely related with the low stock of capital level (investment has been on a downward trend for several years, and represents now circa 15 per cent. of GDP) and with an eventual delay of investment decisions by companies. Gross capital formation has now increased for 2 quarters in a row after a period of year-on-year decreases in the first 9 months of 2016, which is expected to increase in 2017; however, risks remain, as deleveraging at private sector level continues to proceed and some uncertainty regarding business fiscal policies prevails. Additionally, economic growth potential continues to be feeble and GDP might decelerate in the next couple of years as 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 on an international comparison. Nevertheless, a greater exports intensity also increases the sensibility to external shocks which could arise if external demand disappoints, or if financial instability returns to international financial markets 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

² Source: INE.

and putting at stake some of the improvements already achieved, with unfavourable consequences for the Issuer.

Portugal has successfully restored market access, issuing close to €17 billion in debt in 2014 and €20 and €17 billion in 2015 and 2016, respectively, through syndications and auctions³, excluding debt exchanges. In 2017, issuing should decrease to €15 billion, according to the Treasury financing programme. These issues have met strong demand by foreign investors and an increasing part has been taken by institutional investors, reflecting the renewed optimism amongst international investors as far as the sovereign risk is concerned. A new issue of €3 billion in debt by Portugal through syndication was concluded in January 2017. Following the decrease in funding costs, Portugal obtained authorization to make an early repayment of half of the IMF assistance loan (circa €13 billion). In 2015, Portugal repaid €8.4 billion, €4.5 billion in 2016 and €3.6 billion in 2017– equivalent to around 63 per cent. of the loan. Moreover, the Portuguese Government expects to proceed to early repayments of €4.0 billion in 2018 and €1.7 billion in 2019.

The ECB Public Sector Purchase Programme has been one of the main supports for the Portuguese sovereign bond market in recent years, promoting declining financing costs for the State. However, in 2016 and at the earlier months of 2017 the spread over the European benchmark widened to a maximum of 380 b.p. over the benchmark and the yield of the 10 years treasury bonds (*obrigações do tesouro*) surpassed 4 per cent. Part of this movement has been due to political events related to renewed concerns over the possibility of ruptures in the Eurozone in the aftermath of the French Presidential election held on May 2017, which have been diluted after Emmanuel Macron’s designation. However, the pressure on the risk *premia* has also been motivated by the perception that the European Central bank might be more aggressive than expected in the process of tapering and normalization of the euro zone interest rates, scenario with potentially negative consequences for the Portuguese financing costs given the still high public borrowing requirements. More recently, the acceleration of the economic activity, the confirmation of a relatively persistent fiscal consolidation stance and the stabilization in the banking sector allowed the improvement in the sovereigns’ rating classification by major rating agencies and allowed for a decrease of circa 150 basis points in the 10 year OT spread against the Bund since the beginning of the year, which in turn resulted in the 10 years yield faring around 2.5 per cent.. Indeed, since mid-2017 both Moody’s and Fitch have revised the Outlook for Portuguese sovereign rating to “positive” from “stable”, despite keeping the classification below investment grade, and at the beginning of September S&P revised upwards the sovereign rating of the Republic to BBB-, the lowest level in the investment grade classification, with stable outlook. The public debt ratio reached 130.5 per cent. in the Q1 2017, one of the highest among EU peers. Going forward, this metric is expected to improve, benefitting from gradually higher economic growth, the absence of additional banking sector instability and an expected improvement on the fiscal position. Furthermore, the ECB monetary support should continue to limit the rise of Portuguese financing costs. However, this is a scenario subject to risks, as eligible debt to the Public Sector Purchase Programme is diminishing and ECB lacks arguments to change the parameters of its programme within an environment of higher growth and inflation. Hence, investors’ concerns are expected to persist, weighing on Portuguese financing costs. Additionally, increasing speculation about a possible change of ECB policy, notably the announcement of a gradual decline on the amount of purchases under the quantitative easing program might curb the downward trend of the

³ Source: Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E. (“IGCP”).

Portuguese spread, adding some pressure to Portuguese financing costs, although this process of tapering should not start before 2018.

Additionally, there are also domestic factors that may induce further deterioration in the Portuguese sovereign risk perception, including the failure to achieve the fiscal targets expressed in the 2017 Budget, which are ambitious, or to achieve a decline of the public debt ratio by year end; key for market perception will also be the prevailing stance of the 2018 Official Budget, expected to maintain a bias towards consolidation, albeit small; and also the overall economic performance as most of the forecasts are being revised towards an annual rate of growth close to 3 per cent. for 2017 GDP. These risks and the persistent economic vulnerabilities have justified that two of the international major rating agencies continue to consider that sovereign rating is still sub-investment grade, emphasizing fiscal and financial risks.

Despite this framework, public financing needs are being comfortably met: the Government has already issued 71 per cent. of total treasury bonds predicted for the whole year. Furthermore, the cash buffer in the end of 2017 estimated by the Portuguese Treasury (€6.4 billion) represents around 50 per cent. of gross financing needs in 2018. In 2017-2018, the Treasury Bonds that will reach maturity amount to circa €15 billion and scheduled reimbursements to the IMF ascend to about €7.6 billion in the same period. Failure to achieve higher growth standards or to proceed with fiscal consolidation and reach a sustained downward path of the public debt should also affect these plans and the prospects of progressively reducing dependence from external markets and the ECB to finance public borrowing requirements. Additionally, any further deterioration of global economic conditions, including the return of strong instability in 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 -105.4 per cent. of GDP⁴ in Q2 2017) – will highlight the still high vulnerability of the Portuguese economy and be reflected on the international capital and financial markets. 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 CET 1 ratio reached 12.6 per cent. for the Portuguese banking system in the Q1 2017, up from 11.4 per cent. registered in December 2016. 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. Recent 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

⁴ Source: Bank of Portugal.

investors. The public capital injection and €0.5 billion of the private debt issue were concluded in March 2017.

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. However, more recently the assessment of rating agencies improved: in the 2017 mid-year usual review, both Fitch Ratings Limited ("Fitch") and Moody's Investors Service Ltd ("Moody's") reaffirmed the rating assigned to long term public debt at BB+ and Ba1, respectively, but changed the outlook to "positive" from "stable". Additionally, last September, Standard & Poor's Credit Market Services Europe Limited ("S&P") revised upwards the rating of the Republic to BBB- from BB+, being the first of the three major rating agencies to classify Portuguese debt as investment-grade again. DBRS rating agency, a Toronto based rating provider, also recognized by the ECB as far as collateral eligibility is concerned, confirmed in April 2017 the Classification of BBB (low), the lowest level in the investment grade DBRS classification as well as the "stable" outlook. While it may still be too early to expect a clear-cut improvement in the Portuguese sovereign rating classification to investment grade by all the three major rating agencies, the balance of risks looks equilibrated and there seems to be no reason to expect further downgrades in the near future. However, next steps by major rating agencies are dependent on how the economic and fiscal situation evolves in the months ahead. In the absence of data confirming the government commitment to fiscal consolidation and debt reduction, or vis-à-vis a scenario of weaker economic growth or unexpected negative external shocks, 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 a downgrade⁵.

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

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 2016, the five largest banks controlled 84.4 per cent. of total assets, and the two largest, 46.3 per cent.. The principal competitors of the Issuer in the banking sector (ranking in terms of assets as of 31 December 2016) 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.

⁵ Source: Bloomberg data

Additionally, the business, earnings and financial condition of the Issuer have been and will continue to be affected by the current 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 expansion

The oil price level remains a determinant factor in conditioning Angolan economic activity, as oil still represents close to 93 per cent. of total exports and about half of the Executive's tax revenues, emphasizing the need to accelerate the diversification process. After a year of exceedingly low prices in 2016, there has been a recovery to levels around USD 50: in particular, the average price of Angolan exported barrels until July 2017 was USD 50.1, well above the USD 40.5 posted in 2016, and also higher than the 2017 State Budget prediction of USD 46. However, in July, oil price reached USD 45.7, a 0.9 per cent. y-o-y drop, while oil production decreased 2 per cent. y-o-y to 1.62 million barrels a day. So, it will be important to analyse how the Angolan oil price and output is going to evolve in the second half of the year, considering the current context of lower prices when comparing to the beginning of the year and the restraints in production imposed under the OPEC agreement. Although there is no public information on the budget deficit in 2016, the IMF estimates it to have been around 4.1 per cent. of the GDP, an increase in comparison to the 3.3 per cent. estimated for 2015; nevertheless, this is below what was predicted by the Executive itself (5.9 per cent.). For 2017, the Government is expecting a deficit of 5.9 per cent., similar to the forecast of the IMF (5.8 per cent.). The country's relative fiscal prudence could retain the confidence of investors in spite of the still difficult economic situation. The exchange rate has been kept constant since April 2016, despite the pressures coming from falling reserves and a challenging external balance outlook.

Growth outlook is still grim: the Government expected economic activity to have expanded 1.1 per cent. in 2016, with the oil sector growing 0.8 per cent. and the non-oil economy expanding 1.2 per cent., already a deceleration in comparison with the estimated growth of 3 per cent. (6.5 per cent. from oil, 1.5 per cent. by non-oil) in 2015; however, other predictions are not so optimistic, with the IMF estimating stagnation in 2016 and the Economist Intelligence Unit pointing towards 0.6 per cent. growth. For 2017, expectations are of a slightly better outlook, with 1.8 per cent. growth in the oil sector and 2.3 per cent. in the remaining economic activities, leading Angola to grow 2.1 per cent., according to the Executive, still a very low rhythm when considering the economy's early stage of development along with a rapid pace of population growth. The IMF is more pessimistic, expecting a more modest acceleration towards 1.3 per cent. growth. What is more, the Fund's outlook is equally dim in the medium term, expecting growth rates not larger than 1.5 per cent. until 2022. The EIU, on the other hand, forecasts 2.1 per cent. growth in 2017, and a pace ranging from 2.4 per cent. to 2.7 per cent. in the following years up to 2021. It is likely that growth is tilted more to the non-oil part of the economy, as the OPEC cuts mean that Angola will need to slightly reduce output instead of increasing it – meaning stagnating oil sector growth – while likely receiving a larger revenue from oil due to higher prices – thus allowing for more revenue to flow into the non-oil sector. The largest negative risk lies with a failure of the efficacy of the oil sector deal, resulting in a renewed drop in prices, due to a much larger relevance of non OPEC output, in particular, US shale oil; moreover, other more varied

negative risks exist in the near future situation that might imperil the Issuer's capacity to generate value from the Angolan market.

In sectorial terms, according to the official scenario, growth will be larger in the energy (40.2 per cent.), agriculture (7.3 per cent.) and manufacturing (4.0 per cent.) sectors. In terms of the oil sector, output up until July averaged 1.61 mbd, a decrease of 7.8 per cent. in comparison with the same period of 2016.

In dollars, in 2016, the goods balance improved 16 per cent. relative to the same period of 2015, as the decrease in imports (34 per cent.) surpassed the drop in exports (12 per cent.) – the performance of exports was supported by the increase in prices towards the end of the year, causing a 13 per cent. y-o-y increase in its value in Q4.

Economic Indicators and Forecasts

	2010	2011	2012	2013	2014	2015	2016P	2017F
Real Gross Domestic Product growth (yoy, %)	3.4	3.9	5.2	6.8	4.8	3.0	1.1	2.1
Oil Sector	-3.0	-5.6	4.3	-0.9	-2.6	6.5	0.8	1.8
Non-oil sector	7.8	9.7	5.6	10.9	8.2	1.5	1.2	2.3
Oil production (million barrels/day)	1.76	1.63	1.72	1.73	1.63	1.76	1.72	1.82
Price of Angolan oil (average, USD/barrel)	76.5	108.7	111.0	107.5	100.8	51.4	40.6	46.0
Consumer Price Index (yoy change, end-of-period)	15.3	11.4	9.0	7.7	7.5	14.3	42.0	20.0
Fiscal Balance (% GDP)	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-5.8
Non- oil Primary Fiscal Balance (% GDP)	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5
Gross Foreign International Reserves (million of USD, end of period)	19,679	26,321	30,828	31,154	27,276	24,419	24,353	19,433
Average exchange rate (AKZ/USD)	91.9	94.0	95.6	96.9	98.5	120.1	164.4	-

Source: BNA, Ministry of Finance, IMF (World Economic Outlook, April 2017 and Article IV, Feb 2017).

Note: P - preliminar; F - Forecast

Net foreign reserves resumed their downward trajectory, after a stable period in the beginning of 2016, standing at USD 17.4 billion in July 2017, the lowest level since February 2011. The drop in export revenues against a backdrop of a steep fall in oil prices on the international markets is behind this trend, even though the implementation of proactive measures by the monetary authority – restrictions on withdrawals and transactions in foreign currency, currency devaluation, search for alternative external financing – helped to counter this tendency. There is a risk of further devaluation if this trend continues.

Given the adverse external framework since mid-2014 due to the deep fall in oil prices, the monetary local authority (Banco Nacional de Angola, “**BNA**”) took a pre-emptive restrictive stance in an attempt to counter external accounts pressure as well as the upward trend in inflation. Accordingly, BNA raised its benchmark rate by 200 basis points in 2015 and 500 basis points in 2016. Last move on the reference rate has been in June 2016 (+200 basis points) to 16 per cent.; additionally, BNA took other restrictive measures, such as the increase in the mandatory reserves coefficient to 30 per cent. and several restrictions on imports. The end-May 2017 meeting of the Monetary Policy Committee brought the first sign of monetary easing, with the 2 p.p. drop of the absorption rate towards 5.25 per cent.

Additionally, in the next two meetings (June and July), the Monetary Policy Committee decided to decrease the absorption rate to 2.75 per cent..

The apparent halt to the restrictive path of monetary policy was mainly due to an ongoing deceleration of the inflation rate, after having reached alarming values in 2016: annual inflation reached an average of 32 per cent. in 2016, with the year-on-year rise of prices amounting to 42 per cent. in December 2016. In the first months of 2017, inflation has been decreasing: monthly inflation averaged 2.0 per cent. in these 7

months, lower than the 3.44 per cent. average in the same period of 2016; moreover, annual inflation has decreased consecutively in each month of this year, having stood at 29.0 per cent. in July, still a significantly high value. Inflation is expected to moderate somewhat in 2017, although it should still stand well above the BNA interval target of 7 – 9 per cent., probably closer to around 30 per cent.. Besides the impact of the currency's depreciation on imported prices, the higher inflation rate also reflects the scarcity of foreign currency caused by administrative restrictions imposed by the central bank as well as by the still artificially high exchange rate, which limits imports, in particular of food and raw materials.

As of May 2017, total lending to the economy⁶ registered a 10 per cent. y-o-y decrease, reflecting a 10 per cent. y-o-y drop in credit to the private sector. At the same time, total deposits recorded a -0.3 per cent. change y-o-y, with a decrease in deposits denominated in local currency (-1.2 per cent. y-o-y) and a drop in deposits in foreign currency (-6.4 per cent.).

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.

The Issuer can give no assurance that it will be successful in Angola, Mozambique or any of the other international markets where it operates. The Issuer's international operations 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.

Financial sector regulation

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 the BNA and 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

⁶ Source: Banco Nacional de Angola.

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/UE, 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, 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 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 proposes to harmonise 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.

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 BPI 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 CRD IV and the CRR. 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 conjecture.

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 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 CET 1 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). These were accompanied by the entry into force of Bank of Portugal's Notice No. 6/2013, of 23 December 2013, which established how the transitional provisions of the CRD IV would apply to minimum capital requirements and the respective calculation.

A 5 year transitory period was projected in order to adapt the previous applicable rules to the new regulations.

As of 30 June 2017, the Issuer’s consolidated Common Equity Tier 1 (CET I) ratio calculated according to CRD IV / CRR rules stood at:

- CET1 phasing in (rules for 2017): 11.9 per cent., and
- CET1 fully implemented: 10.9 cent.

According to the Supervisory Review and Evaluation Process (SREP) decision for 2017, the following are the minimum capital ratios that BPI has to meet from 1 January 2017:

Minimum requirements for 2017

Phasing-in	Consolidated					Individual
	Total	Of which:				Total
		Pillar 1	Pillar 2	Buffers ¹⁾	Guidance Pillar 2	
CET1	9.25%	4.50%	2.50%	1.25%	1.0%	8.25% ²⁾
T1	9.75%	6.00%	2.50%	1.25%	-	9.75%
Rácio total	11.75%	8.00%	2.50%	1.25%	-	11.75%

1) As determined by the Bank of Portugal, the capital conservation buffer for 2017 was set at 1.25%, the counter-cyclical buffer is currently 0% and the O-SII buffer is zero in 2017.

2) The difference between the requirement for individual CET1 and consolidated CET1 results from the fact that the Pillar 2 guidance only applies to consolidated CET1. The Pillar 2 guidance is not Maximum Distributable Amount (MDA) relevant.

At 30 June 2017 the Issuer complies with all new SREP minimum capital ratios.

To comply with the total capital ratio of 12.0 per cent. (minimum SREP of 11.75 per cent. + 0.25 per cent. buffer), new 300 M.€ of Tier II subordinated debt was issued in March 2017. This issue has a remuneration

rate equivalent to Euribor + 5.74 per cent. and was fully subscribed by Caixabank.

Requirements related to the liquidity ratios

Basel III recommendations endorse the implementation of liquidity coverage ratios of short and medium/long term liabilities, known as Liquidity Coverage Ratio and the Net Stable Funding Ratio. The Liquidity Coverage Ratio (“**LCR**”), addresses the sufficiency of the high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario and is calculated in accordance with the Delegated Regulation (EU) 2015/61 of the EC, of 10 October 2014. The Net Stable Funding Ratio (“**NSFR**”) will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution’s assets and activities over one year period and is estimated in accordance with Basel III methodology.

In 2017, for the purpose of the LCR financial institutions should maintain portfolio of high quality liquid assets corresponding to 80 per cent. of its total net cash outflows in the following 30 days.

Although this implementation process is close to being concluded, there are still some uncertainties regarding the implementation of Basel III, which could entail additional changes to the Issuer and may have a negative impact on the Issuer’s results.

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.

Risks relating to the rules governing the formation of impairments and provisions

European and Portuguese regulations establishes minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Any change in the applicable requirements could have a material adverse effect on the results of operations of the Issuer. For instance, the introduction of the concept of “expected losses” pursuant to IFRS 9, could lead to a negative impact on the Issuer’s results.

IFRS 9, which will be applicable from 1 January 2018, introduces changes in the way in which financial institutions calculate impairment loss on their financial instruments, in particular as regards loans to Customers. IFRS 9 uses an expected loss model (Expected Credit Loss – “**ECL**”) replacing the incurred loss model used by IAS 39. In accordance with this new model, entities must recognize expected losses prior to the occurrence of the loss events. There is also the need to include forward-looking information in the estimates of expected loss, with the inclusion of future trends and scenarios, namely macroeconomic scenarios. The ECL concept required by IFRS 9 also has differences in relation to the Expected Loss concept set out in CRD IV.

Compliance Risks

The Issuer is subject to rules and regulations related to the prevention of money laundering and terrorism financing. A new legal regime on the prevention of money laundering and terrorism financing has been recently approved by the Portuguese parliament, transposing partially Directive (EU) 2015/849, of the European Parliament and of the Council, of 20 May 2015, and Directive (EU) 2016/2258, of the Council, of 6 December 2016, and is expected to enter into force until the end of 2017. 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.

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.

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 is currently under discussion at a EU level.

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

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.

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, require that the board of directors of the credit institution draws up an action plan within a specific timeline; require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan; require changes in the legal or business structures of the credit institutions;
- 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 any obligations of an institution under resolution, except for the some obligations, as defined under the applicable law. 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.

Until 31 December 2015, the Bank of Portugal was the relevant resolution authority. Nonetheless, under Regulation (EU) no. 806/2014, the Bank of Portugal saw its powers as resolution authority in relation to the Issuer transferred to the Single Resolution Board as from 1 January 2016.

The implementation of resolution measures is not subject to the prior consent of the credit institution's shareholders nor of the contractual parties related to assets, liabilities, off-balance-sheet items and assets under management to be sold or transferred. The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with

the order of priority of their claims under normal insolvency proceedings. These actions may have a direct effect on shareholders and the Issuer's Group expected returns and additional indirect impacts through changes to such institutions' business activities.

The determination of which securities issued by the Issuer will be subject to write-down, conversion or bail-in is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. There may be many factors, including factors not directly related to the Issuer, which could result in such a determination.

Also, in accordance with article 145-Y of the RGICSF, financial institutions will be required to meet a minimum requirement for own funds and eligible liabilities (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 CET 1 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. 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 buffers shall consist of CET 1 capital on a consolidated basis and are applicable from 1 January 2018 and 1 January 2019 onwards, as applicable. In the case of the Issuer the buffers are 0.25 per cent. and 0.50 per cent., respectively.

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

Following the decision of 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 2016, the Issuer's share of this loan was € 116 million.

On 21 March 2017, the Portuguese Resolution Fund announced the conclusion of certain amendments to the € 3.9 billion loan granted by the Portuguese State to the Portuguese Resolution Fund, through an amendment agreement. Such amendments correspond to the following: (i) extension of the maturity dates of the loans to 31 December 2046, on which date the Portuguese Resolution Fund is required to fully disburse the principal amount of the loans; (ii) further adjustments to the maturity dates of the loans may be agreed between the parties, to the extent these are required to ensure that the Portuguese Resolution Fund is able to perform its payment obligations pertaining to such loans funded solely by proceeds arising from its regular revenues; (iii) the loans shall rank *pari passu* without any preference among themselves; (iv) the Portuguese Resolution Fund has undertaken that, before the full payment of any amounts due and payable in respect of the loans, no such payments of principal or interest pertaining to any other loans obtained 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**") may be made.

The periodic contributions to the Portuguese Resolution Fund are determined by the application of a contributive rate to the end of month outstanding balance of liabilities, deducted by own funds and deposits already included in the Deposit Guarantee Fund, as set by the Bank of Portugal by regulatory instruction. For 2017, pursuant to the instruction (*Instrução*) 21/2016 issued by the Bank of Portugal, the rate has been set up at 0.0291 per cent.

On 20 February 2017, the Bank of Portugal announced that Lone Star has been selected for the final stage of exclusive negotiations with a view to agreeing the final terms and conditions for the acquisition of Novo Banco. 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 Portuguese Resolution Fund and Lone Star, which is currently pending completion subject to compliance with certain conditions precedent. The Issuer cannot anticipate the final date and/or outcome of this sale procedure.

According to the legal framework in force, after the sale of Novo Banco, the proceeds from that sale will be primarily allocated to repaying the Resolution Fund, including a remuneration corresponding to the

financing costs borne by the Resolution Fund, plus a share to cover the administrative and operational costs of such support.

The amount received by the Resolution Fund from the sale of Novo Banco will be used to repay the loans obtained. It has been stipulated by contract that the Resolution Fund may only repay other liabilities after the State loan has been fully repaid and remunerated.

In the event that the proceeds from the sale of Novo Banco exceed the sum of the amounts provided by the Resolution Fund, the respective surplus will revert to BES' insolvent estate (BES's authorisation has already been revoked and, as such, the relevant liquidation proceeding is now ongoing).

In the event that the proceeds from the sale of Novo Banco are insufficient to repay the loans, the Resolution Fund will use its own funds to finance the possible shortage. As previously mentioned, these funds are partially obtained from periodic contributions to the Resolution Fund (including the contribution over the banking sector) and might also be obtained through special contributions. 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 shortage. In any case, it is expected that the financing will be structured in such a manner as not to jeopardise the solvency of any bank and to preserve financial stability.

In January 2013, 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 initiated in 2015. However, 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.

On 20 December 2015, the Bank of Portugal applied a resolution measure to Banif, which notably resulted in the acquisition by Banco Santander Totta, S.A. of a set of rights and obligations, comprised of assets, liabilities, off balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect. This operation involved an estimated public support of € 2.255 million to cover future contingencies, of which € 489 million are supported by the Resolution Fund and EUR 1.766 million directly by the Portuguese State, as a result of the definition of the assets, liabilities, off balance sheet items and assets under the management of Banif perimeter agreed by and between the Portuguese and European authorities and Banco Santander Totta, S.A. to be sold in this context.

Banif was sold to Banco Santander Totta, S.A. for the amount of € 150 million. Accordingly, the overall activity of Banif was transferred to Banco Santander Totta, S.A. 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.

The Resolution Fund is ultimately financed by the banking system, and thus the outcome of any disposals to be made by or on behalf of the Resolution Fund will ultimately be borne by the institutions which are required to fund the Resolution Fund, including the Issuer.

The final impact which the resolution of Banif and/or the resolution of BES, as described above, may have on the Issuer cannot be anticipated.

Changes to tax legislation and to other laws or regulation

The Issuer might be adversely affected by changes in the tax legislation and other laws or regulations applicable in Portugal, EU 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 legislation on deferred tax assets

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 1st 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 January 2016 onwards, without precluding its applicability to DTA generated concerning previous fiscal years.

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 followed best practices in this area and takes into account what are believed to be worst case scenarios in calculations, the policies and procedures it employs to identify and manage these risks may not be fully effective.

Credit Risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Issuer's business. Adverse changes in the credit quality of Issuer's 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 in provision for bad and doubtful debts and other provisions. This would have a material adverse effect on the Issuer's financial condition and results of operations. The Issuer faces the risk of its borrowers and counterparties being unable to fulfil their payment obligations.

Maximum exposure to credit risk at June 30, 2017, by type of financial instrument, is as follows:

Type of financial	Gross book value	Impairment	Net book value
Balance sheet items			
Deposits at other credit institutions	300 027		300 027
Financial assets held for trading and at fair value through profit or loss	2 241 237		2 241 237
Financial assets available for sale	3 882 030	(102 760)	3 779 270
Loans and advances to credit institutions	744 557		744 557
Loans and advances to customers	23 493 954	(674 108)	22 819 846
Held to maturity investments	14 415		14 415
Derivatives			
Hedging derivatives	20 437		20 437
Trading derivatives(1)	168 494		168 494
	30 865 151	(776 868)	30 088 283
Off balance sheet items			
Guarantees provided	1 245 023	(19 176)	1 225 847
Irrevocable credit lines	473		473
Commercial paper underwriting	411 340	(1 382)	409 958
	1 656 836	(20 558)	1 636 278
	32 521 987	(797 426)	31 724 561

(1) This caption is presented in the balance sheet as financial assets held for trading and at fair value through profit or loss.

Source: Issuer's First Half 2017 Report

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, payment defaults may result from circumstances which are unforeseeable or difficult to predict. In addition, the security and collateral provided to the Issuer may be insufficient to cover its exposure, for instance, as a result of sudden depreciations in the market which dramatically reduce the value of 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.

Credit at risk and impairments cover	Amounts in M.€				Dec.16				
		Credit at risk	Credit at risk ratio	Impairments ¹⁾	Coverage	Credit at risk	Credit at risk ratio	Impairments ¹⁾	Coverage
Loans to individuals [= 2 + 3]	1	374	3.1%	248	66%	388	3.2%	258	66%
Mortgage loans	2	335	3.0%	204	61%	348	3.1%	212	61%
Other loans to individuals	3	39	3.6%	44	112%	40	4.0%	46	114%

Loans to companies [= 5 + 6]	4	459	5.5%	432	94%	470	5.7%	445	95%
Large and medium sized companies	5	364	5.7%	343	94%	361	5.7%	351	97%
Small businesses	6	95	4.8%	89	93%	109	5.7%	94	86%
Other	7	5	0.2%	15	285%	5	0.1%	15	322%
TOTAL [= 1 + 4 + 7]	8	839	3.6%	695	83%	863	3.7%	718	83%

1) Impairments for loans and guarantees.

Source: Issuer's 1st Half 2017 Report

Notwithstanding the above, factors such as unexpected deterioration of global economic conditions, unexpected political events or a general lack of liquidity in economy may result in credit losses which exceed the amount of provisions of the Issuer or the maximum expected losses planned through the risk management procedures.

To the extent that the Issuer's Group transactions are mainly located in Portugal, the Issuer is particularly exposed to the risk of a general economic contraction or to another event affecting default rates in Portugal. If the economic environment continues to weaken, unemployment continues to increase and interest rates start to rise sharply, the financial condition of the Issuer customers and their ability to repay their loans may have a significant adverse effect on the Issuer's financial condition and results of operations.

An increase in the Issuer Group's provisions for losses resulting from defaulted loans or possible losses which exceed the amount of such provisions may have a significantly adverse effect on the Issuer.

Market Risk

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

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

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.

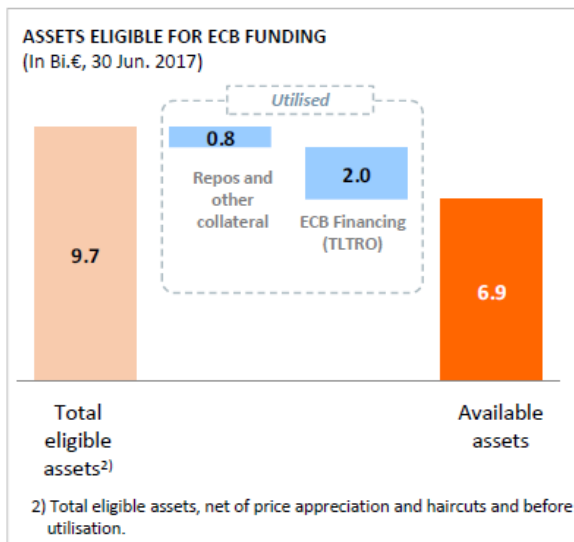
The Issuer's business is dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply 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 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 June 2017, the assets eligible for ECB funding were:



Source: Issuer's First Half 2017 consolidated results presentation

M.€	Book value (M.€)	Gains / (losses)	Residual maturity, years
Short-term public debt ³⁾	2 904	1	0.4
MLT public debt ⁴⁾	519	0	1.8
Equity, corporate bonds and other	356	22	
Total	3 779	24	

3) Portugal (67%), Italy (17%) and Spain (16%).

4) Portugal (63%), Italy (37%).

Source: Issuer's First Half 2017 consolidated results presentation

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 Issuer may be forced to recognise losses in the income statement in the future.

Liquidity risk

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

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 30 June 2017, the Issuer had a portfolio of available assets eligible for obtaining funding from the ECB, totalling € 6.9 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 € 2 billion at the end of June 2017, 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.

Counterparty Risk

The Issuer's business operations lead to contractual arrangements with customers, suppliers, financing partners, and trading counterparts which expose the Issuer to counterparty risks.

Every corporate exposure is reviewed by the Credit Committee of the Issuer at least once a year. Each limit is set with a specific validity date with a maximum of one year. Financial counterparties limits, both for money market and derivatives are proposed by the International Department from a strict set of rules that take into account counterparties own funds and ratings and are subject to the approval of the Executive Committee. These limits are also reviewed at least once a year. Rules regarding the composition of the Credit Committee and credit risk approval and management are documented in internal regulations.

As of 30 June 2017 credit risk exposures of the consolidated position are spread across a wide range of private individuals (39.2 percent), small and medium-sized enterprises (16.3 percent), industrial counterparties (6.9 percent), and financial institutions (2.7 percent). Exposure is mainly to Euro Zone residents (97.2 percent) with EU other countries (0.6 percent) and Other Countries (2.2 percent). The majority of exposure is to Portuguese counterparties (89.4 percent), but there is also significant exposure to Spanish counterparties (3.3 percent) and relevant exposure to international financial institutions (1.9 percent – Spanish financial institutions adding only 0.18 per cent to this value).

Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an acceptable level, and collateral is actively demanded from counterparts not fulfilling credit requirements.

However, there can be no assurance that the Issuer will not sustain losses as a result of default, litigation or other actions by one or more of its counterparties. Should this occur, it may negatively impact the ability of the Issuer to fulfil its obligations under the Public Sector Bonds issued under the Programme.

Hedging Risk

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.

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.

Impact of regulatory changes

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 was initially intended to enter into effect on 3 January 2017. In order to ensure legal certainty and avoid potential market disruption, the European Commission has delayed the effective date of MiFID II by 12 months until 3 January 2018. Consequently, there is no certainty as to whether the implementation of these new obligations and requirements will have material adverse effects on the Issuer's Group business, financial condition and results of operations.

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.

Rating Risk

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.

The credit ratings (long term / short term) and Outlook of the Issuer are:

S&P: BBB-/ A-3 with stable outlook. The last revision occurred on 19 September 2017;

Moody's: Ba3/Not Prime with stable outlook. The last revision occurred on 18 January 2017;

Fitch: BBB-/F3 with positive outlook. The last revision occurred on 21 June 2017.

On 18 January 2017, Moody's confirmed the following ratings of the Issuer: (1) The Ba3 long-term senior debt and deposit ratings; and (2) the baseline credit assessment (BCA) of b1. At the same time, the rating agency has upgraded the following ratings: (1) the subordinated debt ratings to B1 from B2; (2) the junior subordinated programme ratings to (P)B2 from (P)B3; (3) the backed preference shares rating to B3(hyb) from Caa1(hyb); (4) the bank's adjusted BCA to ba3 from b1; and (5) its long-term Counterparty Risk Assessment (CRA) to Ba1 (cr) from Ba2(cr). The outlook on the bank's long-term senior debt and deposit ratings is stable.

On 19 September 2017, S&P upgraded the long-term counterparty credit rating of the Issuer to BBB- from BB+ and upgraded the short-term counterparty credit rating to A-3 from 'B'. The outlook on the Issuer is stable.

On 21 June 2017, Fitch confirmed the Issuer's Long-Term Issuer Default Rating (IDR) at BBB- and the Short-Term IDR at F3. The outlook was revised to positive from stable.

The current long-term ratings assigned to the Issuer by Moody's is two notches below the level of the Republic of Portugal (Ba1 with stable outlook). Fitch rating is one notch above the rating of the Republic of Portugal (BB+ with positive outlook). In the case of S&P, the rating of the Issuer is at the same level of the Republic of Portugal (BB+ 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 credit. 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 operations

International operations are exposed to foreign exchange risk, which is reflected mainly in the statements of income and in the balance sheets of the respective subsidiaries of the Issuer's Group, for the purpose of consolidation. It is relevant for this 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 balance sheet and statement of income items expressed in these currencies would translate into relatively lower values when converted to euros.

Strategy Risk

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 and can change significantly in order to become, eventually, strategies adopted inadequate to the new framework.

Risk of changes in the organization of partnerships

There are some activities of the BPI Group which are partially related to partnerships in various activities with other companies that are not under the control of the BPI Group, in particular the activities of bancassurance. These activities depend in part on such partners which the Group does not control.

Described below are some of the business relationship established by BPI 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.

Risks relating to CaixaBank's general tender offer

The results of the general and mandatory tender offer (the “**Offer**”), announced by CaixaBank (the “**Offeror**”) on 21 September 2016 for the acquisition of the shares representing the share capital of Banco BPI were disclosed on 8th February 2017, according to which the Offeror acquired 39,02 per cent. voting rights in the context of the Offer, reaching 84,52 per cent. of the voting rights of Banco BPI.

CaixaBank has identified, in the prospectus of the Offer, certain potential synergies which CaixaBank believes may be achievable with the success of the Offer, including, among others, streamlining of operational processes at a head office level, scale benefits, with joint procedures for the award of public contracts, IT infrastructures and architecture optimization and subcontracting several back-office services, distribution channels, product and other services and functions development with top Offeror associates, at a low cost.

Whilst CaixaBank believes the underlying assumptions on which it has based its estimates are reasonable, the degree of its success in achieving such synergies remains subject to uncertainties and could vary significantly. There can be no assurance that such potential synergies or other anticipated benefits will be realised in the near future.

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

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.

Obligations under the Public Sector Bonds

The Public Sector Bonds will not represent an obligation or be the responsibility of the Arranger, the Common Representative, the Dealer 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.

Extended Maturity of the Public Sector Bonds

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*”)

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.

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*".

Other Assets/Hedging Contracts

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".

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*.

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.

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.

Factors which are material for the purposes of assessing the market risks associated with Public Sector Bonds issued under the Programme

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.

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.

EU Savings Directive, OECD CRS and Directive 2014/107/EU

Under EC Council Directive 2003/48/EC, as amended from time to time, on the taxation of savings income (the “**EU Savings Directive**”), Member States were required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. A number of non-EU countries and territories including Switzerland have adopted similar measures.

However, on 10 November 2015 the Council of the European Union adopted the Council Directive (EU) 2015/2060, of 10 November 2015, repealing the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States of the European Union (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent

overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended from time to time). The new regime under Council Directive 2011/16/EU (as amended from time to time) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended from time to time) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. Portugal has implemented the above Savings Directive on taxation of savings income into the Portuguese law through Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time. Accordingly, it is expected that Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time, will be revoked. Moreover, Council Directive 2014/107/EU was transposed to Portuguese national law on October 2016 by Decree-Law 64/2016, of October 11 (“**Portuguese CRS Law**”), which amended Decree-Law number 61/2013, of May 10, which transposed Directive 2011/16/EU.

Under the Portuguese CRS Law, the first exchange of information was due by the 31 July 2017 for information related to the calendar year 2016. For calendar year 2017 and the subsequent years, exchange of information is due by the 31 July 2018 and the 31st July of the following years.

The proposed 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.

US Foreign Account Tax Compliance Withholding and Reporting

The Issuer and other non-US financial institutions through which payments on the Public Sector Bonds 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 Public Sector Bonds are made, to the payments made after 31 December 2014 in respect of (i) any Public Sector Bonds issued after 18 March 2012 and (ii) any Public Sector Bonds 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 Public Sector Bonds 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 Public Sector Bonds 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 Public Sector Bonds 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 Public Sector Bonds should consult their own tax advisers on how these rules may apply to payments they receive under the Public Sector Bonds.

Portugal has implemented, through Law 82-B/2014, of 31 December, 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, Portuguese government approved the complementary regulation required to comply with FATCA. Under the Portuguese FATCA framework, the exchange of information regarding information related to calendar years 2014 and 2015 was due the 10 January 2017. For the following calendar years reporting is due by the 31 July.

Change of law

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, Bank of Portugal Regulations or administrative or judicial practice after the date of issue of the relevant Public Sector Bonds.

The secondary market generally

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 CRA Regulation, as amended from time to time, 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.

Reliance upon Interbolsa procedures and Portuguese law

Investments in Public Sector Bonds held through 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 will 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) Portuguese Tax Rules

Pursuant to Decree-Law 193/2005, of 7 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.

GENERAL DESCRIPTION OF THE PROGRAMME

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 *Euronext* Lisbon or any other regulated market for the purposes of Directive no. 2004/39/EC, of the European Parliament and of the Council, of 21 April 2004, as amended from time to time, on markets in financial instruments, 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 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 its 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, Deloitte & Associados – SROC, S.A., registered with the CMVM with number 231, with registered office at Av. Engenheiro Duarte Pacheco, 7, 1070-100 Lisbon (the Statutory Auditor of the Issuer, hereinafter referred to as the “**Auditor**”), hereby declares that it has audited and expressed an opinion on the financial statements of the Issuer for the financial years ended 31 December 2015 and 31 December 2016 and for the first half year ended 30 June 2017 (see *General Information*). The Certification of Accounts and Auditor’s Reports referring to the above financial periods are incorporated by reference in this Public Sector Bonds Base Prospectus (see *Documents Incorporated by Reference*).

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 has been authorised to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus in connection with the issue or sale of the 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 most 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) does 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 European Economic Area (“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 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 other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger, the Common Representative or the Dealer that any recipient of this Base Prospectus or any other financial statements 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 Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, 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 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 3rd 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 2015 and on 31 December 2016;
- (b) the Portuguese version of the Issuer's first half 2017 interim consolidated Report;
- (c) the articles of association of the Issuer (available at www.bancobpi.pt).

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, Porto and from the specified offices of the Agent at Rua Tenente Valadim, no. 284, 4100-476 Porto, as well as from the website of the Issuer whose link is 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, except for the articles of association of the Issuer which can be obtained from www.bancobpi.pt and from 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) and (b):

BANCO BPI	
Information Incorporated by Reference	Reference
<u>First Half 2017 Report</u>	
Consolidated Balance Sheets (<i>Balanços Consolidados em 30 de Junho de 2017 e 31 de Dezembro de 2016</i>)	46
Consolidated Statements of Income (<i>Demonstrações Consolidadas Intercalares dos resultados para os períodos findos em 30 de Junho de 2017 e 2016 Proforma</i>)	47
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 2017 e 2016 Proforma</i>)	48
Statements of changes in shareholders' equity (<i>Demonstrações consolidadas intercalares de alterações nos capitais próprios para os períodos findos em 30 de Junho de 2017 e 2016 Proforma</i>)	49
Consolidated Statements of Cash flows (<i>Demonstrações consolidadas intercalares dos fluxos de caixa para os períodos findos em 30 de Junho de 2017 e 2016 Proforma</i>)	50
Notes to the Consolidated Financial Statements (<i>Demonstrações financeiras consolidadas Intercalares em 30 de Junho de 2017 e 2016</i>)	51 - 235
Auditors report (<i>Certificação Legal de contas e relatório de auditoria</i>)	239 - 249
<u>Annual Report 2016</u>	
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
<u>Annual Report 2015</u>	
Consolidated Balance Sheets (<i>Balanços consolidados em 31 de Dezembro de 2015 e 2014 proforma e 1 de Janeiro de 2014 proforma</i>)	144
Consolidated Statements of Income (<i>Demonstrações dos resultados consolidados para os exercícios findos em 31 de Dezembro de 2015 e 2014 proforma</i>)	145
Consolidated Statements of Profit or Loss and other Comprehensive Income (<i>Demonstrações dos resultados e de outro rendimento integral consolidado para os exercícios findos em 31 de dezembro de 2015 e 2014 proforma</i>)	146 - 147
Statements of changes in shareholders' equity (<i>Demonstrações de alterações de capital próprio para os exercícios findos em 31 de Dezembro de 2015 e 2014 proforma</i>)	148 - 149
Consolidated Statements of Cash flows (<i>Demonstrações dos fluxos de caixa consolidados para os exercícios findos em 31 de Dezembro de 2015 e 2014 proforma</i>)	150 - 151
Notes to the Consolidated Financial Statements (<i>Notas às demonstrações financeiras consolidadas em 31 de Dezembro de 2015 e 2014</i>)	152 - 290
Auditors report (<i>Certificação Legal de contas e relatório de auditoria</i>)	292 - 294

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.

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., 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[, from 1 January 2018,]⁷ to be offered, sold or otherwise made available to (and[, with effect from such date,]⁸ 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**”) or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs 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.]⁹

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 (AS AMENDED FROM TIME TO TIME, THE “**PUBLIC SECTOR BONDS LAW**”). THE ISSUER HAS THE CAPACITY TO ISSUE PUBLIC SECTOR 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.

⁷ This date reference should not be included in Final Terms for offers concluded on or after 1 January 2018.

⁸ This date reference should not be included in Final Terms for offers concluded on or after 1 January 2018.

⁹ Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 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” or (ii) for offers concluded before 1 January 2018 at the option of the parties.

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 12 October 2017 [, 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 or endorsed upon (as applicable) 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.

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

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 1 October 2015, as supplemented on 2 June 2016. The Terms and Conditions are incorporated by reference into or endorsed upon (as applicable) in each Public Sector Bond described herein, as applicable. This document constitutes the Final Terms of the Public Sector Bonds 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], which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Base Prospectus[, as supplemented] and are attached hereto. 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 dated 1 October 2015, as supplemented on 2 June 2016. The Base Prospectus [as supplemented] is available for viewing at Banco BPI, S.A., Rua Tenente Valadim, no. 284, 4100-476 Porto, Portugal, and copies may be obtained from the same address. A copy of the Base Prospectus [and any supplements thereto] [is] [are] available for viewing at www.bancobpi.pt and www.cmvm.pt.]

[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): [●]]
7. Maturity Date: [specify date 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: [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.]
- 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)*
- (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:
(i) Instalment Amount(s): [Not Applicable/*give details*]
(ii) Instalment Date(s): [Not Applicable/*give details*]
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]
(*if the offer of the Public Sector Bonds is concluded prior to 1 January 2018, or on and after that date the Public Sector Bonds clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Public Sector Bonds will be concluded on or after 1 January 2018 and the Public Sector Bonds may constitute “packaged products” and no KID will be prepared, “Applicable” should be specified*)

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.]
(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)
- (iii) Estimate of total expenses related to admission to trading [●]

2. Ratings

- Ratings: The Public Sector Bonds to be issued have been rated:
[Moody's: [●]]
[[●] (*specify*): [●]]
(The above disclosure should reflect the rating allocated to Public Sector Bonds of the type being 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 and Total Expenses

- | | |
|----------------------------------|--|
| [(i) Reasons for the offer | [•]
<i>(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.)]</i> |
| [(ii) Estimated net proceeds | [•]
<i>(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.)]</i> |
| [(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:

[•]

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.

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.

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 registered as such in the relevant securities account.

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 – 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;
- (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). 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 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 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 will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date (as specified in the relevant Final Terms).

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

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

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant

Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (a) in the case of 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.(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, 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.

- (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), 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.

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

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:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; 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:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(E) Notification of Rate of Interest and Interest Amounts

The Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the Calculation Agent so specified, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to any Stock Exchange or other relevant competent listing authority or quotation system on which the relevant Floating Rate 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, 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 (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, 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. 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 arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

(B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of 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 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

(D) This Condition 4.4 shall only apply to 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.

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, 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 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 does not apply, upon redemption of such Zero Coupon Public Sector Bond pursuant to paragraph 6.1, 6.2 or 6.3 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 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 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, 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.

(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, 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 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 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 or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of 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 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, 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;
- (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 and on the CMVM’s information system (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 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 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 Transaction Documents are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

18. DEFINITIONS

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

“**Acceleration Notice**” means a notice served on the Issuer pursuant to Condition 9 (*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**” 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 12 October 2017, prepared in connection with the Programme.

“**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, 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 Deloitte & Associados – SROC, S.A., member of the Portuguese Association of the Chartered Accountants (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Avenida Engenheiro Duarte Pacheco, 7, 1070-100, 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 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 or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Public Sector Bonds in accordance with Condition 11 (*Notices*).

“Reserved Matter” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the 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) 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 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.

In the event of insolvency of the Issuer, 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 has been made.

In any case, and even if the Issuer 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.

COMMON REPRESENTATIVE OF THE HOLDERS OF PUBLIC SECTOR BONDS

BNP Paribas Trust Corporation UK Limited, with registered office at 10 Harewood Avenue, London, England, NW1 6AA, United Kingdom, 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 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.

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 19 June, 2008, as amended from time to time, the Issuer appointed Deloitte & Associados, SROC S.A. as Cover Pool Monitor. Deloitte & Associados, SROC S.A. is registered with the CMVM under registration number 231.

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 (*Collateralisation, 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 collateralisation (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 of 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.

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 and the holding company of the BPI Group.

The BPI Group is a financial and multi-specialist group, focusing predominantly on commercial banking in Portugal. It has a comprehensive spectrum of financial services and products for business, institutional and individual customers.

At the end of 30 June 2017, the Issuer served approximately 1,949 thousand customers through its multi-channel distribution network comprising 438 retail branches, 39 investment centres, 51 corporate centres, a network of 20,505 commercial partners, a home-banking service and a telephone banking service.

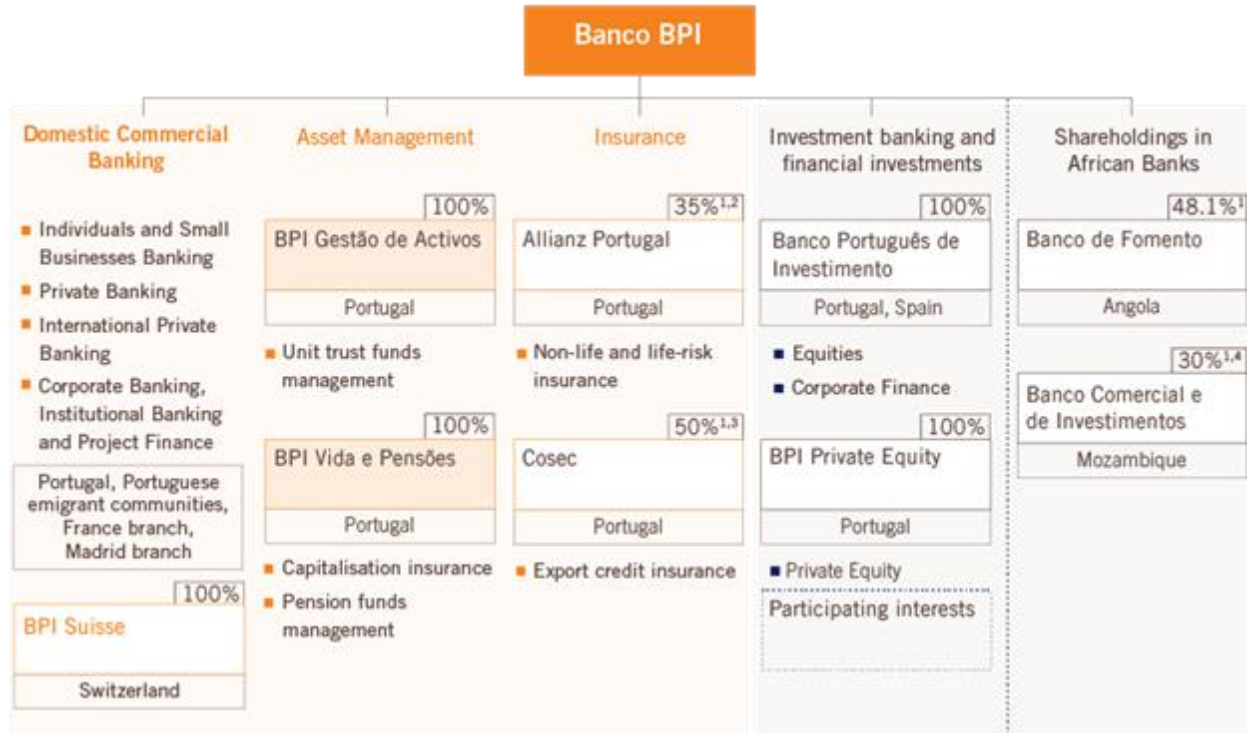
With regard to asset management, the Issuer, through its distribution network, places with clients investment and savings products – unit trust funds, insurance capitalization and pension funds – which are managed by subsidiaries of the group. BPI is also present in the investment banking business – equities and corporate finance.

BPI Group also owns equity participations in banks developing commercial banking operations in Angola (BFA, 48.1 per cent. held) and Mozambique (BCI, 30 per cent. held).

In the insurance business, the Issuer has a partnership arrangement with Allianz for general insurance and life assurance, through which the Issuer has an equity stake of 35 per cent in Allianz Portugal and there is an agreement covering insurance distribution via the Issuer’s commercial network. The Issuer also controls 50 per cent. of Cosec, an operator in the credit-insurance and insurance-guarantee market.

The Issuer is the parent company of the companies shown below and the Issuer’s financial results are partially dependent upon the cash flows and dividends from these subsidiaries.

Main units of the BPI Group



- 1) Equity-accounted subsidiaries.
- 2) In association with Allianz, which holds 65 per cent. of the capital.
- 3) In association with Euler Hermes, a company of Allianz Group.
- 4) In partnership with Caixa Geral de Depósitos (51 per cent.) and a group of Mozambican investors, which together, hold 19 per cent. of the share capital.

HISTORY

Sociedade Portuguesa de Investimentos was conceived in 1981 and transformed into an investment bank in 1985. During the 90's BPI acquired several banks: Banco Fonecas & Burnay, Banco de Fomento e Exterior and Banco Borges & Irmão and Banco Universo (an in-store bank). In 1998 Banco BPI, S.A. was formed through the merger of the Group's four commercial banks.

In 2002, BPI - SGPS incorporated Banco BPI and simultaneously assumed the core business mission of a commercial bank, adopting the name Banco BPI and assuming the role as the entity at the Group's helm.

On 8 February 2017, the results of the tender offer of CaixaBank over BPI became public, with CaixaBank announcing a shareholding of 84.51 per cent. in Banco BPI. BPI is now integrated into one of the Iberian Peninsula's biggest banking group.

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 share capital of 1 293 M.€, comprises 1 457 million nominative and dematerialised ordinary shares with no par value. All the shares are admitted to trading on the Euronext market. The results of CaixaBank, S.A.'s public tender offer for the Issuer's shares were made known on 8 February 2017. Shareholder positions of more than 2 per cent. of the capital are now those presented in the following table:

Shareholder positions in excess of 2 per cent. of Banco BPI's capital
As at 30 June 2017

Shareholders	No. of shares held	% of capital held ¹
CaixaBank, S.A.	1 231 250 696	84.510% ¹⁾
Allianz SE	122 744 370	8.425% ²⁾

Source: Information received from the Securities Exchange Clearing House (Central de Valores Mobiliários - CVM) relating to the shareholder positions registered as at 30 June 2017 at the Clearing House and as per public information disclosed to the market.

- 1) The shareholding held through Caixabank, S.A., is also imputable at Criteria Caixa, S.A.U., which was the holder of 40 per cent. of Caixabank, S.A.'s voting rights as of 30 June 2017, which in turn is controlled by Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "La Caixa", holder of 100 per cent. of the respective voting rights in terms of article 20(1)(b), of the Securities Code.
- 2) Indirect shareholding held by subsidiaries controlled by Allianz SE, the Allianz Group holding company, and imputable to that entity in terms of article 20(1)(b) of the Securities Code: direct shareholding of 8.275 per cent. held by Allianz Europe Ltd. (100 per cent. owned by Allianz SE) and direct shareholding of 0.150 per cent. held by Companhia de Seguros Allianz Portugal (65 per cent. owned by Allianz SE).

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 Supervisory Board, of the Nominations, Evaluation and Remunerations Committee, of the Risk Committee and of the Audit and Internal Control 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. BPI Group also provides services of asset management and insurance as well as investment banking and private equity. The commercial banking business in Portugal also includes the provision overseas of banking services to non-residents - namely to emigrant Portuguese communities.

Commercial banking

The Issuer's Group commercial banking operations include:

- i. Retail Banking – includes commercial operations with private clients, sole traders and businesses with turnover of up to € 5 million through a multi-channel distribution network made up of traditional branches, investment centres, home banking services and telephone banking. It also includes the Private Banking area which is responsible for implementing strategies and investment proposals presented to customers and ensures the management of their financial assets.
- ii. Corporate Banking, Project Finance and Institutional Banking – includes commercial operations with companies with a turnover of more than € 2 million and also with Retail Banking for the segment of up to €5 million. This also includes project finance services and relationships with entities of the Public Sector, Public and Municipal Companies, the State Business Sector, Foundations and

Associations. This segment operates through a network of business centres, institutional centres and home banking services adapted to the business needs.

Insurance, BPI provides to individual, corporate and small business Customers, through its distribution network, an extensive range of insurance products in the life assurance and other non-life branches, through an agreement of distribution of insurance from Allianz Portugal, which is 35 per cent. held by Group BPI. In credit insurance, BPI 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..

Asset management, includes the activities of managing financial investment and savings products in the form of mutual funds, unit trust funds and real estate funds, capitalization insurance, pension plans and the management of the portfolio of institutional clients. The management of the portfolios of the unit trust funds, capitalization insurance and pension funds is ensured by subsidiaries 100 per cent. owned by the BPI Group - BPI Gestão de Activos and BPI Vida e Pensões - and the products are placed with customers through the distribution network of Banco BPI.

BPI Group also owns equity participations in banks developing commercial banking operations in Angola (BFA, 48.1 per cent. held) and Mozambique (BCI, 30 per cent. held).

SHARE CAPITAL

As at 30 June 2017, the Issuer'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 audited financial information for the years ended 31 December 2015 and 2016 and for the first half year of 2017.

There have been no recent events particular to the Issuer which are material to the evaluation of the Issuer's solvency since the publication of the Issuer's audited consolidated results for the first half year of 2017.

BANCO BPI, S.A.

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

(Translation of statements originally issued in Portuguese)
(Amounts expressed in thousands of Euro)

		Jun. 30, 17		31 Dec. 16				
	Notes	Amounts before impairment and amortisation	Impairment and amortisation	Net	Net	Notes	Jun. 30, 17	31 Dec. 16
ACTIVO						LIABILITIES		
Cash and deposits at central banks	4.1	983 403		983 403	876 621	Resources of central banks	4.15	2 145 381
Deposits at other credit institutions	4.2	300 027		300 027	300 190	Financial liabilities held for trading	4.16/4.4	185 786
Financial assets held for trading and at fair value through profit or loss	4.3/4.4	2 409 731		2 409 731	2 197 913	Resources of other credit institutions	4.17	1 624 144
Financial assets available for sale	4.5	3 882 030	102 760	3 779 270	3 876 434	Resources of customers and other debts	4.18	22 335 470
Loans and advances to credit institutions	4.6	744 557		744 557	637 607	Debt securities	4.19	268 891
Loans and advances to customers	4.7	23 493 954	674 108	22 819 846	22 735 758	Financial liabilities relating to transferred assets	4.20	511 425
Held to maturity investments	4.8	14 415		14 415	16 317	Hedging derivatives	4.4	77 964
Hedging derivatives	4.4	20 437		20 437	25 802	Non-current liabilities held for sale and discontinued operations	4.9	
Non-current assets held for sale and discontinued operations	4.9				6 295 910	Provisions	4.21	68 791
Other tangible assets	4.10	428 187	384 487	43 700	50 955	Technical provisions	4.22	1 923 575
Intangible assets	4.11	122 797	98 055	24 742	25 629	Tax liabilities	4.23	67 091
Investments in associated companies and jointly controlled entities	4.12	674 957		674 957	175 678	Other subordinated debt and participating bonds	4.24	373 832
Tax assets	4.13	472 824		472 824	471 848	Other liabilities	4.25	606 736
Other assets	4.14	486 289	22 794	463 495	597 990	Total Liabilities		30 189 086
						SHAREHOLDERS' EQUITY		
						Subscribed share capital	4.27	1 293 063
						Other equity instruments	4.28	1 722
						Revaluation reserves	4.29	(11 850)
						Other reserves and retained earnings	4.30	1 379 731
						(Treasury shares)	4.28	(377)
						Other accumulated comprehensive income related to discontinued operations	4.9	(182 121)
						Consolidated net income of the BPI Group	4.45	(101 725)
						Shareholders' equity attributable to the shareholders of BPI		2 560 564
						Non-controlling interests	4.31	1 754
						Total Shareholders' Equity		2 562 318
Total Assets		34 033 608	1 282 204	32 751 404	38 284 652	Total Liabilities and Shareholders' Equity		32 751 404
OFF BALANCE SHEET ITEMS								
Guarantees given and other contingent liabilities	4.32			1 412 233	1 466 208			
Of which:								
[Guarantees and securities]				[1 245 023]	[1 294 856]			
[Others]				[167 210]	[171 352]			
Commitments	4.32			3 224 249	3 392 479			

The accompanying notes form an integral part of these balance sheets.

The Accountant

The Board of Directors

INTERIM CONSOLIDATED STATEMENTS OF INCOME FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016 PROFORMA

(Translation of statements of income originally issued in Portuguese)
(Amounts expressed in thousands of Euro)

	Notes	Jun. 30, 17	Jun. 30, 16 Proforma
Interest and similar income		228 318	273 137
Interest and similar expenses		(45 988)	(94 204)
Financial margin (narrow sense)	4.33	182 330	178 933
Gross margin on unit links	4.34	6 434	7 051
Income from equity instruments	4.35	6 401	3 910
Net commission relating to amortised cost	4.36	10 344	10 558
Financial margin		205 509	200 452
Technical result of insurance contracts	4.37	7 437	13 495
Commissions received		132 243	126 117
Commissions paid		(14 825)	(15 355)
Other income, net		14 478	14 192
Net commission income	4.38	131 896	124 954
Gain and loss on operations at fair value		14 375	(629)
Gain and loss on assets available for sale		776	24 455
Interest and financial gain and loss with pensions		(409)	1 328
Net income on financial operations	4.39	14 742	25 154
Operating income		22 012	9 099
Operating expenses		(207 616)	(25 414)
Other taxes		(5 434)	(3 236)
Net Operating Income	4.40	(191 038)	(19 551)
Operating income from banking activity		168 546	344 504
Personnel costs	4.41	(241 965)	(152 276)
General administrative costs	4.42	(85 713)	(93 675)
Depreciation and amortisation	4.10/4.11	(11 003)	(10 809)
Overhead costs		(338 681)	(256 760)
Recovery of loans, interest and expenses		9 088	7 160
Impairment losses and provisions for loans and guarantees, net	4.21	(16 583)	(35 775)
Impairment losses and other provisions, net	4.21	2 967	(33 868)
Net income before income tax		(174 663)	25 261
Income tax	4.43	(47 749)	(22 473)
Earnings of associated companies (equity method)	4.44	120 711	21 357
Net income from continuing operations		(101 701)	24 145
Net income from discontinued operations	4.9		163 857
Income attributable to non-controlling interests from continuing operations	4.31	(24)	(23)
Income attributable to non-controlling interests from discontinued operations	4.9		(82 049)
Income attributable to non-controlling interests		(24)	(82 072)
Consolidated net income of the BPI Group	4.45	(101 725)	105 930
Earnings per share (in Euro)			
Basic	4.45	(0,070)	0,073
Diluted	4.45	(0,070)	0,073
Earnings per share from continuing operations (in Euro)			
Basic	4.45	(0,070)	0,017
Diluted	4.45	(0,070)	0,017
Earnings per share from discontinued operations (in Euro)			
Basic	4.45		0,056
Diluted	4.45		0,056

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

BANCO BPI, S.A.**INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016 PROFORMA**

(Translation of statements originally issued in Portuguese)

(Amounts expressed in thousands of Euro)

	Jun. 30, 17			Jun. 30, 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
Consolidated net income	(101 725)	24	(101 701)	105 930	82 072	188 002
Income not included in the consolidated statements of income related to continuing operations:						
Items that will not be reclassified to net income						
Actuarial deviations	32 763		32 763	(126 009)		(126 009)
Tax effect	(9 538)		(9 538)	34 600		34 600
	23 225		23 225	(91 409)		(91 409)
Items that may be reclassified subsequently to net income						
Foreign exchange translation differences						
Transfer to income	182 121		182 121			
Foreign exchange translation differences	3 925		3 925	(20 247)		(20 247)
Tax effect	4		4			
Revaluation reserves of financial assets available for sale:						
Revaluation of financial assets available for sale:	10 236		10 236	(18 797)		(18 797)
Tax effect	(4 399)		(4 399)	4 179		4 179
Transfer to income resulting from sales	(421)		(421)	(22 340)		(22 340)
Tax effect	118		118	6 128		6 128
Transfer to income resulting from impairment recognized in the period	272		272	24 787		24 787
Tax effect	(71)		(71)	(6 792)		(6 792)
Valuation of assets of associated companies	2 593		2 593	(444)		(444)
Tax effect	(702)		(702)	(174)		(174)
	193 676		193 676	(33 700)		(33 700)
Income not included in the consolidated statements of income related to discontinued operations						
Items that may be reclassified subsequently to net income						
Foreign exchange translation differences				(87 804)	(88 576)	(176 380)
Income not included in the consolidated statements of income	216 901		216 901	(212 913)	(88 576)	(301 489)
Consolidated comprehensive income	115 176	24	115 200	(106 983)	(6 504)	(113 487)

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

BANCO BPI, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015

(Translation of balance sheets originally issued in Portuguese - Note 5)
(Amounts expressed in thousands of Euro)

	Notes	Dec. 31, 16		Dec. 31, 15		Notes	Dec. 31, 16	Dec. 31, 15	
		Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net	Net				
ASSETS						LIABILITIES			
Cash and deposits at central banks	4.1	876 621		876 621	2 728 185	Resources of central banks	4.15	2 000 011	1 520 735
Deposits at other credit institutions	4.2	300 190		300 190	612 055	Financial liabilities held for trading	4.16/4.4	212 713	294 318
Financial assets held for trading and at fair value through profit or loss	4.3/4.4	2 197 913		2 197 913	3 674 604	Resources of other credit institutions	4.17	1 096 439	1 311 791
Financial assets available for sale	4.5	3 983 429	106 995	3 876 434	6 509 388	Resources of customers and other debts	4.18	21 967 681	28 177 814
Loans and advances to credit institutions	4.6	637 607		637 607	1 230 043	Debt securities	4.19	506 770	1 077 381
Loans and advances to customers	4.7	23 430 958	695 200	22 735 758	24 281 622	Financial liabilities relating to transferred assets	4.20	555 385	689 522
Held to maturity investments	4.8	16 317		16 317	22 417	Hedging derivatives	4.4	97 756	161 556
Hedging derivatives	4.4	25 802		25 802	91 286	Non-current liabilities held for sale and discontinued operations	4.9	5 951 398	
Non-current assets held for sale and discontinued operations	4.9	6 295 910		6 295 910		Provisions	4.21	70 235	99 864
Other tangible assets	4.10	431 991	381 036	50 955	195 095	Technical provisions	4.22	2 048 829	3 663 094
Intangible assets	4.11	118 699	93 070	25 629	29 138	Tax liabilities	4.23	22 006	92 050
Investments in associated companies and jointly controlled entities	4.12	175 678		175 678	210 447	Other subordinated debt and participating bonds	4.24	69 500	69 512
Tax assets	4.13	471 848		471 848	420 214	Other liabilities	4.25	777 404	680 156
Other assets	4.14	631 759	33 769	597 990	668 798	Total Liabilities		35 376 127	37 837 793
						SHAREHOLDERS' EQUITY			
						Subscribed share capital	4.27	1 293 063	1 293 063
						Other equity instruments	4.28	4 309	5 194
						Revaluation reserves	4.29	(21 514)	(87 564)
						Other reserves and retained earnings (Treasury shares)	4.30	1 044 319	972 587
						Other accumulated comprehensive income related to discontinued operations	4.9	(182 121)	
						Consolidated net income of the BPI Group	4.45	313 230	236 369
						Shareholders' equity attributable to the shareholders of BPI		2 440 477	2 406 852
						Non-controlling interests	4.31	468 048	428 647
						Total Shareholders' Equity		2 908 525	2 835 499
Total Assets		39 594 722	1 310 070	38 284 652	40 673 292	Total Liabilities and Shareholders' Equity		38 284 652	40 673 292
OFF BALANCE SHEET ITEMS									
Guarantees given and other contingent liabilities	4.32			1 466 208	1 828 781				
Of which:									
[Guarantees and sureties]				[1 294 856]	[1 497 070]				
[Others]				[171 352]	[331 711]				
Commitments	4.32			3 392 479	3 372 509				

The accompanying notes form an integral part of these balance sheets.

The Accountant

The Board of Directors

BANCO BPI, S.A.**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 PROFORMA**(Translation of statements originally issued in Portuguese - Note 5)
(Amounts expressed in thousands of Euro)

	Dec. 31, 16			Dec. 31, 15 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
Consolidated net income	313 230	168 865	482 095	236 369	140 849	377 218
Income not included in the consolidated statements of income related to continued operations:						
Items that will not be reclassified to net income						
Actuarial deviations	(211 692)		(211 692)	144 783		144 783
Tax effect	56 123		56 123	(42 263)		(42 263)
	(155 569)		(155 569)	102 520		102 520
Items that may be reclassified subsequently to net income						
Foreign exchange translation differences	(23 036)		(23 036)	(10 899)		(10 899)
Revaluation reserves of financial assets available for sale:						
Revaluation of financial assets available for sale	(8 539)		(8 539)	38 370		38 370
Tax effect	1 907		1 907	(10 692)		(10 692)
Transfer to income resulting from sales	(22 495)		(22 495)	7 089		7 089
Tax effect	6 171		6 171	(1 972)		(1 972)
Transfer to income resulting from impairment recognized in the period	24 471		24 471	10 019		10 019
Tax effect	(6 705)		(6 705)	(2 290)		(2 290)
Valuation of assets of associated companies	(8 932)		(8 932)	(12 817)		(12 817)
Tax effect	2 032		2 032	2 303		2 303
	(35 126)		(35 126)	19 111		19 111
Income not included in the consolidated statements of income related to discontinued operations						
Items that may be reclassified subsequently to net income						
Foreign exchange translation differences	(87 845)	(88 616)	(176 461)	(66 046)	(66 218)	(132 264)
Income not included in the consolidated statements of income	(278 540)	(88 616)	(367 156)	55 585	(66 218)	(10 633)
Consolidated comprehensive income	34 690	80 249	114 939	291 954	74 631	366 585

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

BANCO BPI, S.A.**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 PROFORMA**

(Translation of statements of income originally issued in Portuguese - Note 5)
(Amounts expressed in thousands of Euro)

	Notes	Dec. 31, 2016	Dec. 31, 2015 Proforma
Interest and similar income		518 935	689 453
Interest and similar expenses		(154 724)	(372 090)
Financial margin (narrow sense)	4.33	364 211	317 363
Gross margin on unit links	4.34	13 454	12 967
Income from equity instruments	4.35	8 528	4 739
Net commission relating to amortised cost	4.36	21 216	21 115
Financial margin		407 409	356 184
Technical result of insurance contracts	4.37	24 613	31 804
Commissions received		260 293	260 671
Commissions paid		(29 766)	(32 571)
Other income, net		28 861	27 058
Net commission income	4.38	259 388	255 158
Gain and loss on operations at fair value		23 994	53 621
Gain and loss on assets available for sale		23 876	(6 114)
Interest and financial gain and loss with pensions		1 040	413
Net income on financial operations	4.39	48 910	47 920
Operating income		20 613	23 124
Operating expenses		(37 483)	(40 865)
Other taxes		(6 898)	(6 942)
Operating income and expenses	4.40	(23 768)	(24 683)
Operating income from banking activity		716 552	666 383
Personnel costs	4.41	(307 996)	(302 370)
General administrative costs	4.42	(168 571)	(178 011)
Depreciation and amortisation	4.10/4.11	(21 370)	(19 887)
Overhead costs		(497 937)	(500 268)
Recovery of loans, interest and expenses		13 733	16 249
Impairment losses and provisions for loans and guarantees, net	4.21	(33 009)	(103 367)
Impairment losses and other provisions, net	4.21	(36 483)	(15 903)
Net income before income tax		162 856	63 094
Income tax	4.43	(44 690)	(2 130)
Earnings of associated companies (equity method)	4.44	26 190	33 433
Net income from continuing operations		144 356	94 397
Net income from discontinued operations		337 739	282 821
Income attributable to non-controlling interests from continuing operations	4.31	(45)	(43)
Income attributable to non-controlling interests from discontinued operations	4.9	(168 820)	(140 806)
Income attributable to non-controlling interests	4.45	(168 865)	(140 849)
Consolidated net income of the BPI Group	4.45	313 230	236 369
Earnings per share (in Euro)			
Basic	4.45	0.216	0.163
Diluted	4.45	0.215	0.162
Earnings per share from continuing operations (in Euro)			
Basic	4.45	0.099	0.065
Diluted	4.45	0.099	0.065
Earnings per share from discontinued operations (in Euro)			
Basic	4.45	0.117	0.098
Diluted	4.45	0.116	0.097

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

Notes:

Pro forma figures at 31 December 2015 reflecting the retroactive application of IFRS 5 to the recognition of BFA 2015 results.

Pro forma figures at 30 June 2017 reflects the restatement of the contribution of BFA to consolidated results according to IFRS 5 standards, that is recorded in net income from discontinued operations.

The denomination “pro forma” does not constitute the presentation of proforma financial information in accordance to Annex II to the Prospectus Regulation.

The auditor’s reports on the consolidated financial statements of Banco BPI for the years ended 31 December 2015 and 2016 and for the first semester ended 30 June 2017 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 Banco BPI, together with the respective financial statements, which are incorporated by reference in this Prospectus.

INVESTMENTS

There have been no material investments by Banco BPI since 30 June 2017.

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 Ba3/Not Prime by Moody's, BBB-/F3 by Fitch and BBB-/A-3 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. If the Board of Directors so resolves, a Corporate Social Responsibility Committee may be 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^{10,11}

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:	Pablo Forero
Deputy-Chairman:	António Lobo Xavier
Members:	Alexandre Lucena e Vale
	Carla Bambulo
	António Farinha de Morais
	Cristina Rios Amorim
	Francisco Manuel Barbeira
	Gonzalo Gortázar Rotaeché

¹⁰ 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 Resende de Almeida, António Lobo Xavier, Carla Bambulo, Ignacio Alvarez-Rendueles, João Pedro Oliveira e Costa, José Pena do Amaral, Lluís Vendrell, Manuel Ferreira da Silva, Maria Celeste Hagatong, Mário Leite da Silva, Pedro Barreto, Tomas Jervell and Vicente Tardio Barutel.

¹¹ 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 2015: Artur Santos Silva, Fernando Ulrich, Alfredo Resende de Almeida, António Domingues, António Lobo Xavier, Armando Leite de Pinho, Carla Bambulo, Carlos Moreira da Silva, Edgar Alves Ferreira, Ignacio Alvarez-Rendueles, Isidro Fainé Casas, João Pedro Oliveira e Costa, José Pena do Amaral, Lluís Vendrell, Manuel Ferreira da Silva, Marcelino Armenter Vidal, Maria Celeste Hagatong, Mário Leite da Silva, Pedro Barreto and Vicente Tardio Barutel.

Ignacio Alvarez-Rendueles
João Oliveira e Costa
José Pena do Amaral
Javier Pano Riera
Juan Antonio Alcaraz
Juan Ramon Fuertes¹²
Lluís Vendrell Pi
Pedro Barreto
Tomas Jervell
Vicente Tardio Barutel

CERTAIN RELATIONSHIPS

The Issuer is not aware of any potential conflicts of interests between any duties *vis-à-vis* the Issuer of the members of either the Board of Directors or the Executive Committee of the Board of Directors and their private interests or other duties.

SUPERVISORY BOARD¹³

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 Board¹⁴, whose business address is the Issuer's head office:

Chairman:	Abel Pinto dos Reis
Members:	Rui Manuel Campos Guimarães Jorge de Figueiredo Dias
Alternate Member	Francisco Javier Olazabal Rebelo Valente Luis Manuel Roque de Pinho Patricio

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.

¹² Juan Ramon Fuertes submitted on 4 September 2017 his resignation.

¹³The Supervisory Board ("*Conselho Fiscal*") members elected in the General Meeting held on 26 April 2017 are not in office nor, consequently, registered at the *Conservatória do Registo Comercial*.

In light of the recent guidelines issued by the authorities regarding the requirements for members of the management body and key function holders of credit institutions, namely regarding the assessment of experience ("*Guide to fit and proper assessment*" of the European Central Bank, released on 16 May 2017, and the "*Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (...)*", released on 26 September 2017, and that will enter into force on 30 June 2018), the composition of the Supervisory Board is being re-examined, and it is expected that the next Annual General Meeting, to be held in April 2018, will consider a proposal in this matter.

Within this framework, the Supervisory Board members which were in office on 26 April 2017 remained and remain, in accordance with the law, in office, and taking in consideration the above, it is expected that this situation will not change until the next Annual General Meeting.

¹⁴ The Chairman and Members of the Supervisory Board have been responsible for the report and opinion on BPI Group's 2015 and 2016 consolidated accounts.

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.

PORTUGUESE 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.

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 years ended 31 December 2015 and 31 December 2016. Paulo Alexandre Rosa Pereira Antunes has been responsible for the audit report for the period of six months ended 30 June 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.

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.

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 2017, BPI's Public Sector loan portfolio amounted to EUR 1,440 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 60th 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 credits 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. Also, if the option of income aggregation is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income up to EUR 20,261.00; (ii) 0.88 per cent. for taxable income exceeding EUR 20,261.00 up to EUR 40,522.00; (iii) 2.75 per cent. for taxable income exceeding EUR 40,522.00 up to EUR 80,640.00; (iv) 3.21 per cent. for taxable income exceeding EUR 80,640. 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 7 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 2nd Series of Portuguese official gazette no. 251, of 31st December, which may be available at 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 7 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 7th 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 21st February, which may be available at 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.

EU Savings Directive, OECD CRS and Directive 2014/107/EU

Under EC Council Directive 2003/48/EC, as amended from time to time, on the taxation of savings income (the “**EU Savings Directive**”), Member States were required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

However, on 10 November 2015 the Council of the European Union adopted the Council Directive (EU) 2015/2060, of 10 November 2015, repealing the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States of the European Union (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended from time to time).

The new regime under Council Directive 2011/16/EU (as amended from time to time) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended from time to time) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

Portugal has implemented the above Savings Directive on taxation of savings income into the Portuguese law through Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time. Accordingly, it is expected that Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time, will be revoked. Moreover, Council Directive 2014/107/EU was transposed to Portuguese national law on October 2016 by Decree-Law 64/2016, of October 11 (“**Portuguese CRS Law**”), which amended Decree-Law number 61/2013, of May 10, which transposed Directive 2011/16/EU.

Under the Portuguese CRS Law, the first exchange of information is due by the 31 July 2017 for information related to the calendar year 2016. For calendar year 2017 and the subsequent years, exchange of information is due by the 31 July 2018 and the 31 July of the following years.

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, 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.

Public Offer Selling Restrictions under the Prospectus Directive

From 1 January 2018, 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 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor, as defined in the Prospectus Directive; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Public Sector Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Public Sector Bonds.

Prior to 1 January 2018, and after that date, 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 (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented by the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU of the European Parliament and of the Council of 24th November 2010.

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 a resolution of the Board of Directors of the Issuer dated 22 April 2008 and the Programme has been subsequently updated by resolutions of the Board of Directors of the Issuer, the last update having been duly authorised on 24 July 2017, in accordance with the provisions of the Public Sector Bonds Law.

Listing

Application has been made to list the Public Sector Bonds on the regulated market *Euronext* Lisbon.

Registration and Settlement

The Public Sector Bonds have been accepted for registration and 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.

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 2017 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 first Half 2017 Report (Audited consolidated financial statements).

Litigation

On 2 February 2017 Banco 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 shareholders holding together 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 abovementioned legal action and Banco BPI's 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.

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. 231, 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 2015 and 31 December 2016 and for the first half of 2017 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 Paying Agents for the time being:

- (a) 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 2015 and on 31 December 2016;
- (c) The Portuguese version of the Issuer's first half 2017 interim consolidated Report;
- (d) the Programme Agreement;
- (e) the Agency and Payments Procedures;
- (f) the Common Representative Appointment Agreement;
- (g) this Base Prospectus and any supplement thereto;
- (h) 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
- (i) in the case of an issue of Public Sector Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are available from the official website of the Issuer (www.bancobpi.pt) and the official website of the CMVM (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 and at 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&riId=PublicSectorBP2>.

The following information could be found on the June 2017 Investor Report:

2. Regulatory Summary					
G.2.1.1	UCITS Compliance (Y/N)	Y			
G.2.1.2	CRRI Compliance (Y/N)	Y			
G.2.1.3	ICB status				
3. General Cover Pool / Covered Bond Information					
1. General Information		Nominal (mn)			
G.3.1.1	Cover Pool Size	718			
G.3.1.2	Outstanding Covered Bonds	500			
2. Over-collateralisation (OC)		Legal	Actual	Minimum Committed	Purpose
G.3.2.1	OC (%)	0.00	43.62	7.00	Rating Requirements
3. Cover Pool Composition		Nominal (mn)		% Cover Pool	
G.3.3.1	Mortgages	0			0.00%
G.3.3.2	Public Sector	702			97.81%
G.3.3.3	Shipping	0			0.00%
G.3.3.4	Substitute Assets	16			2.19%
G.3.3.5	Other	0			0.00%
G.3.3.6	Total	718			100%
4. Cover Pool Amortisation Profile		Contractual (mn)	Expected Upon Prepayments (mn)	% Total Contractual	% Total Expected Upon Prepayments
G.3.4.1	Weighted Average life (in years)	10.46	ND3		
By buckets:					
G.3.4.2	0 - 1 Y	104	ND3	14.42%	ND2
G.3.4.3	1 - 2 Y	74	ND3	10.33%	ND2
G.3.4.4	2 - 3 Y	67	ND3	9.35%	ND2
G.3.4.5	3 - 4 Y	68	ND3	9.49%	ND2
G.3.4.6	4 - 5 Y	62	ND3	8.56%	ND2
G.3.4.7	5 - 10 Y	215	ND3	29.88%	ND2
G.3.4.8	10+ Y	129	ND3	17.97%	ND2
G.3.4.9	Total	718	0	100%	0%
5. Maturity of Covered Bonds		Initial Maturity (mn)	Extended Maturity (mn)	% Total Initial Maturity	% Total Extended Maturity
G.3.5.1	Weighted Average life (in years)	2.97	2.97		
By buckets:					
G.3.5.2	0 - 1 Y	250	0	50.00%	0.00%
G.3.5.3	1 - 2 Y	0	250	0.00%	50.00%
G.3.5.4	2 - 3 Y	0	0	0.00%	0.00%
G.3.5.5	3 - 4 Y	0	0	0.00%	0.00%
G.3.5.6	4 - 5 Y	0	0	0.00%	0.00%
G.3.5.7	5 - 10 Y	250	250	50.00%	50.00%
G.3.5.8	10+ Y	0	0	0.00%	0.00%
G.3.5.9	Total	500	500	100%	100%

6. Covered Assets - Currency		Nominal [before hedging] (mn)	Nominal [after hedging] (mn)	% Total [before]	% Total [after]
G.3.6.1	EUR	718	718	100.00%	100.00%
G.3.6.2	USD	0	0	0.00%	0.00%
G.3.6.3	GBP	0	0	0.00%	0.00%
G.3.6.4	NOK	0	0	0.00%	0.00%
G.3.6.5	CHF	0	0	0.00%	0.00%
G.3.6.6	AUD	0	0	0.00%	0.00%
G.3.6.7	CAD	0	0	0.00%	0.00%
G.3.6.8	BRL	0	0	0.00%	0.00%
G.3.6.9	CZK	0	0	0.00%	0.00%
G.3.6.10	DKK	0	0	0.00%	0.00%
G.3.6.11	HKD	0	0	0.00%	0.00%
G.3.6.12	KRW	0	0	0.00%	0.00%
G.3.6.13	SEK	0	0	0.00%	0.00%
G.3.6.14	SGD	0	0	0.00%	0.00%
G.3.6.15	Other	0	0	0.00%	0.00%
G.3.6.16	Total	718	718	100%	100%
7. Covered Bonds - Currency		Nominal [before hedging] (mn)	Nominal [after hedging] (mn)	% Total [before]	% Total [after]
G.3.7.1	EUR	500	500	100.00%	100.00%
G.3.7.2	USD	0	0	0.00%	0.00%
G.3.7.3	GBP	0	0	0.00%	0.00%
G.3.7.4	NOK	0	0	0.00%	0.00%
G.3.7.5	CHF	0	0	0.00%	0.00%
G.3.7.6	AUD	0	0	0.00%	0.00%
G.3.7.7	CAD	0	0	0.00%	0.00%
G.3.7.8	BRL	0	0	0.00%	0.00%
G.3.7.9	CZK	0	0	0.00%	0.00%
G.3.7.10	DKK	0	0	0.00%	0.00%
G.3.7.11	HKD	0	0	0.00%	0.00%
G.3.7.12	KRW	0	0	0.00%	0.00%
G.3.7.13	SEK	0	0	0.00%	0.00%
G.3.7.14	SGD	0	0	0.00%	0.00%
G.3.7.15	Other	0	0	0.00%	0.00%
G.3.7.16	Total	500	500	100%	100%
8. Covered Bonds - Breakdown by interest rate		Nominal (mn)	% Covered Bonds		
G.3.8.1	Fixed coupon	0	0%		
G.3.8.2	Floating coupon	500	100%		
G.3.8.3	Other	0	0%		
G.3.8.4	Total	500	100%		
9. Substitute Assets - Type		Nominal (mn)	% Substitute Assets		
G.3.9.1	Cash	0	0.00%		
G.3.9.2	Exposures to/guaranteed by governments or quasi governments	0	0.00%		
G.3.9.3	Exposures to central banks	0	0.00%		
G.3.9.4	Exposures to credit institutions	16	100.00%		
G.3.9.5	Other	0	0.00%		
G.3.9.6	Total	16	100%		
10. Substitute Assets - Country		Nominal (mn)	% Substitute Assets		
G.3.10.1	Domestic (Country of issuer)	16	100.00%		
G.3.10.2	Eurozone	0	0.00%		
G.3.10.3	Rest of European Union (EU)	0	0.00%		
G.3.10.4	European Economic Area (not member of EU)	0	0.00%		
G.3.10.5	Switzerland	0	0.00%		
G.3.10.6	Australia	0	0.00%		
G.3.10.7	Brazil	0	0.00%		
G.3.10.8	Canada	0	0.00%		
G.3.10.9	Japan	0	0.00%		
G.3.10.10	Korea	0	0.00%		
G.3.10.11	New Zealand	0	0.00%		
G.3.10.12	Singapore	0	0.00%		
G.3.10.13	US	0	0.00%		
G.3.10.14	Other	0	0.00%		
G.3.10.15	Total EU	16	100%		
G.3.10.16	Total	16	100%		
11. Liquid Assets		Nominal (mn)	% Cover Pool	% Covered Bonds	
G.3.11.1	Substitute and other marketable assets	0	0.00%	0.00%	
G.3.11.2	Central bank eligible assets	0	0.00%	0.00%	
G.3.11.3	Other	16	100.00%	100.00%	
G.3.11.4	Total	16	100%	100%	

G.3.12.1	Bond list	http://bpi.bancobpi.pt/index.asp?ridArea=AreaDivida&rid=PublicSector&P	
13. Derivatives & Swaps			
G.3.13.1	Derivatives in the cover pool (mn)	0	
G.3.13.2	Type of interest rate swaps (intra-group, external or both)	ND2	
G.3.13.3	Type of currency rate swaps (intra-group, external or both)	ND2	
4. References to Capital Requirements Regulation (CRR)			
129(7)			
		Row	Row
The issuer believes that, at the time of its issuance and based on transparency data made publicly available by the issuer, these covered bonds would satisfy the eligibility criteria for Article 129(7) of the Capital Requirements Regulation (EU) 648/2012. It should be noted, however, that whether or not exposures in the form of covered bonds are eligible to preferential treatment under Regulation (EU) 648/2012 is ultimately a matter to be determined by a relevant investor institution and its relevant supervisory authority and the issuer does not accept any responsibility in this regard.			
G.4.1.1	(i) Value of the cover pool outstanding covered bonds:	38	
G.4.1.2	(i) Value of covered bonds:	39	
G.4.1.3	(ii) Geographical distribution:	49	
G.4.1.4	(ii) Type of cover assets:	52	
G.4.1.5	(ii) Loan size:	19	
G.4.1.6	(ii) Interest rate risk - cover pool:	130	161
G.4.1.7	(ii) Currency risk - cover pool:	109	
G.4.1.8	(ii) Interest rate risk - covered bond:	161	
G.4.1.9	(ii) Currency risk - covered bond:	135	
G.4.1.10	(Please refer to "Tab C. HTT Harmonised Glossary" for hedging strategy)	17 in the Harmonised Glossary	
G.4.1.11	(iii) Maturity structure of cover assets:	65	
G.4.1.12	(iii) Maturity structure of covered bonds:	82	
G.4.1.13	(iv) Percentage of loans more than ninety days past due:	167	
5. References to Capital Requirements Regulation (CRR)			
129(1)			
G.5.1.1	Exposure to credit institute credit quality step 1 & 2	171	

8. Public Sector Assets					
1. General information					
PS.8.1.1	Number of public sector exposures	578		Reporting Date: 31/05/17	
				Cut-off Date: 31/03/17	
2. Size information					
PS.8.2.1	Average exposure size (000s)	Nominal	Number of Exposures	% Public Sector Assets	% No. of Exposures
		1,215.2	578	100%	100%
By buckets (mn):					
PS.8.2.2	0 to 50	2.5	96	100.00%	100.00%
PS.8.2.3	50 to 100	5.1	70	100.00%	100.00%
PS.8.2.4	100 to 150	5.8	46	100.00%	100.00%
PS.8.2.5	150 to 200	7.8	44	100.00%	100.00%
PS.8.2.6	200 to 250	7.9	36	100.00%	100.00%
PS.8.2.7	250 to 350	16.7	56	100.00%	100.00%
PS.8.2.8	350 to 450	17.4	44	100.00%	100.00%
PS.8.2.9	450 to 550	8.8	18	100.00%	100.00%
PS.8.2.10	550 to 650	18.9	30	100.00%	100.00%
PS.8.2.11	750 to 1,000	19.1	22	100.00%	100.00%
PS.8.2.12	1,000 to 2,000	68.4	51	100.00%	100.00%
PS.8.2.13	2,000 to 10,000	218.5	50	100.00%	100.00%
PS.8.2.14	10,000 to 20,000	160.1	12	100.00%	100.00%
PS.8.2.15	20,000 to 50,000	67.0	2	100.00%	100.00%
PS.8.2.16	> 50,000	78.3	1	100.00%	100.00%
PS.8.2.17	Total	702.4	578		
3. Breakdown by Asset Type					
PS.8.3.1	Loans	Nominal (mn)		% Public Sector Assets	
		702.4		100.00%	
PS.8.3.2	Bonds	0.0		0.00%	
PS.8.3.3	Other	0.0		0.00%	
PS.8.3.4	Total	702.4		100%	

4. Breakdown by Geography		% Public Sector Assets
PS.8.4.1	<u>European Union</u>	
PS.8.4.2	Austria	0
PS.8.4.3	Belgium	0
PS.8.4.4	Bulgaria	0
PS.8.4.5	Croatia	0
PS.8.4.6	Cyprus	0
PS.8.4.7	Czech Republic	0
PS.8.4.8	Denmark	0
PS.8.4.9	Estonia	0
PS.8.4.10	Finland	0
PS.8.4.11	France	0
PS.8.4.12	Germany	0
PS.8.4.13	Greece	0
PS.8.4.14	Netherlands	0
PS.8.4.15	Hungary	0
PS.8.4.16	Ireland	0
PS.8.4.17	Italy	0
PS.8.4.18	Latvia	0
PS.8.4.19	Lithuania	0
PS.8.4.20	Luxembourg	0
PS.8.4.21	Malta	0
PS.8.4.22	Poland	0
PS.8.4.23	Portugal	100
PS.8.4.24	Romania	0
PS.8.4.25	Slovakia	0
PS.8.4.26	Slovenia	0
PS.8.4.27	Spain	0
PS.8.4.28	Sweden	0
PS.8.4.29	United Kingdom	0
PS.8.4.30	<u>European Economic Area (not member of EU)</u>	0
PS.8.4.31	Iceland	0
PS.8.4.32	Liechtenstein	0
PS.8.4.33	Norway	0
PS.8.4.34	Other	0
PS.8.4.35	Switzerland	0
PS.8.4.36	Australia	0
PS.8.4.37	Brazil	0
PS.8.4.38	Canada	0
PS.8.4.39	Japan	0
PS.8.4.40	Korea	0
PS.8.4.41	New Zealand	0
PS.8.4.42	Singapore	0
PS.8.4.43	US	0
5. Breakdown by domestic regions		% Public Sector Assets
PS.8.5.1	Lisboa	22.1%
PS.8.5.2	Grande Lisboa	15.0%
PS.8.5.3	Beira Litoral	8.5%
PS.8.5.4	Madeira	8.0%
PS.8.5.5	Alentejo	7.6%
PS.8.5.6	Beira Interior	7.5%
PS.8.5.7	Minho	7.4%
PS.8.5.8	Algarve	6.6%
PS.8.5.9	Grande Porto	5.8%
PS.8.5.10	Ribatejo	5.3%
PS.8.5.11	Azores	2.6%
PS.8.5.12	Tras-os-Montes	2.5%
PS.8.5.13	Porto	1.2%

6. Breakdown by Interest Rate		% Public Sector Assets	
PS.8.6.1	Fixed rate	5.7%	
PS.8.6.2	Floating rate	94.3%	
PS.8.6.3	Other	0.0%	
7. Breakdown by Repayment Type		% Public Sector Assets	
PS.8.7.1	Other	62.52%	
PS.8.7.2	Annuity / French	36.06%	
PS.8.7.3	Bullet	1.43%	
8. Breakdown by Type of Debtor		Nominal (mn)	% Public Sector Assets
PS.8.8.1	Sovereigns	0.0	0.00%
PS.8.8.2	Regional/federal authorities	68.2	9.71%
PS.8.8.3	Local/municipal authorities	549.7	78.26%
PS.8.8.4	Others	84.5	12.04%
PS.8.8.5	Total	702.4	100%
9. Non-Performing Loans			
PS.8.9.1	% NPLs	0.00%	
10. Concentration Risks		% Public Sector Assets	
PS.8.10.1	10 largest exposures	45.36%	

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.

Rating of the Issuer

The information found on pages 31 and 32 of the Prospectus has been sourced from the websites of S&P, Moody's and Fitch. As far as the Issuer is aware and is able to ascertain from the ratings information published by S&P, by Moody's and by Fitch, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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.

“**Auditor**” means Deloitte & Associados – SROC, S.A., member of the Portuguese Association of the Chartered Accountants (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Avenida Engenheiro Duarte Pacheco, 7, 1070-100 Lisbon, Portugal.

“**Banco 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 12 October 2017, 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.

“**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.

“**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 Deloitte & Associados – SROC, S.A., member of the Portuguese Association of the Chartered Accountants (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Avenida Engenheiro Duarte Pacheco, 7, 1070-100 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:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (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:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; 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:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

“**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.

“**ECB**” means the European Central Bank.

“**EEA**” means the European Economic Area.

“**EU**” means the European Union.

“**Euro**”, “**€**” or “**euro**” means the lawful currency of Member States of the European Union that adopt the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in 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.

“**Global Public Sector Bond**” means any global public sector bond (whether temporary or permanent, if applicable).

“**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.

“**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 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 Commercial Companies Code**” means the commercial companies code approved by Decree-Law no. 262/86, dated 2nd 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.

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

“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 or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Public Sector Bonds in accordance with Condition 11 (*Notices*).

“Reserved Matter” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the 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.

“**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.

REGISTERED OFFICE OF THE ISSUER

Banco BPI, S.A.

Rua Tenente Valadim, no. 284
4100-476 Porto
Portugal

ARRANGER

Banco BPI, S.A.

Rua Tenente Valadim, no. 284
4100-476 Porto
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Deloitte & Associados, SROC S.A.

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Avenida Engenheiro Duarte Pacheco, 7
1070-100 Lisbon
Portugal

DEALER

Banco BPI, S.A.

Rua Tenente Valadim, no. 284
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COMMON REPRESENTATIVE

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London, England, NW1 6AA
United Kingdom

AGENT

Rua Tenente Valadim, no. 284
4100-476 Porto
Portugal

AUDITORS

To Banco BPI, S.A.

Deloitte & Associados, SROC S.A.

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