



## BANCO BPI, S.A.

(incorporated with limited liability in Portugal)

# €7,000,000,000 COVERED BONDS PROGRAMME BASE PROSPECTUS

Banco BPI, S.A. (the “**Issuer**” or “**BPI**”) is an authorised credit institution for the purposes of Decree-Law no. 59/2006, of 20<sup>th</sup> March 2006 (as amended, the “**Covered Bonds Law**”). The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law.

Under this €7,000,000,000 Covered Bonds Programme (the “**Programme**”), described in this base prospectus, dated 4 July 2014 (the “**Base Prospectus**”), as further supplemented, the Issuer may from time to time issue mortgage covered bonds (the “**Covered Bonds**”) denominated in any currency agreed between the Issuer and the Dealer (as defined below).

Covered Bonds may be issued in bearer form (the “**Bearer Covered Bonds**”) or, except for Covered Bonds intended to be issued in new global note (“**NGN**”) form, registered form (respectively, the “**Bearer Covered Bonds**” and the “**Registered Covered Bonds**”) and be represented in book-entry form or in NGN form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €7,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. Covered Bonds may be issued on a continuing basis to the Dealer specified and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together, the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

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

This document comprises a base prospectus for the purposes of Article 135-C of the Portuguese Securities Code (as amended and which was approved by Decree-Law no. 486/99, of 13<sup>th</sup> November 1999, the “**Portuguese Securities Code**”) which implemented Article 5.4 of Directive no. 2003/71/EC, of 4<sup>th</sup> November 2003 (the “**Prospectus Directive**” which expression means Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU (the “**2010 PD Amending Directive**”), 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 Covered Bonds of the Issuer under the Programme until no more Covered 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 Covered 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<sup>st</sup> April 2004, as amended from time to time, on markets in financial instruments. References in this Base Prospectus to Covered Bonds being “listed” (and all related references) shall mean that such Covered Bonds have been admitted to trading on *Euronext Lisbon* or other regulated market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) no. 1060/2009, as amended by Directive 2011/61/EU of the European Parliament and of the Council, by Regulation (EU) no. 513/2011 of the European Parliament and the Council and by Regulation (EU) no. 462/2013 of the European Parliament and the Council (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<sup>th</sup> 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

4 JULY 2014

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## **RISK FACTORS**

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

*In addition, factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.*

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

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

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

#### **Covered Bonds are obligations of the Issuer only**

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

#### **Factors that may affect the Issuer’s ability to fulfil its obligations under Covered Bonds issued under the Programme**

##### ***The impact of the financial and credit crisis***

Banco BPI's performance is reliant on global financial markets conditions and economic activity. Since the summer of 2007, the global financial system has faced tough conditions; in particular, financial markets have had negative performances as a consequence of the declaration of insolvency of several international financial institutions since September 2008. This situation has caused disruptions in the financial markets worldwide, namely in which refers to liquidity and funding in the international banking system. Furthermore, this situation has put significant pressure on the core business of many investment banks, commercial banks, and insurance companies worldwide. In

response to the instability and lack of liquidity in the market, some countries, including some European Union (“EU”) members and the United States of America (“USA” or “US”) have intervened by injecting liquidity and capital into the system with the goal of stabilising financial markets and, in some cases, preventing the insolvency of certain financial institutions.

Even so, volatility in the capital markets remained very high. Market disorders caused the failure of some financial institutions and disruptions in the financial market worldwide, widespread liquidation of assets and further constraining credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, have rapidly driven down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation on many of the asset categories represented on the balance sheet of the issuer, and reduces their ability to sell assets at prices deemed acceptable.

Increasing uncertainties about the resolution of the European sovereign risk crisis were reflected in a loss of investors’ confidence, weakening the investor base, and driving up funding costs, namely for the European financial sector. This was especially apparent in the so-called peripheral countries of the Eurozone. These developments have created an unfavourable environment for banking activity generally.

Financial market stress levels have diminished significantly since the summer of 2012, when the President of the European Central Bank (“ECB”) announced that the institution would do whatever it takes to save the euro. The ECB has been alleviating financial institution’s conditions to access liquidity and announced a new instrument – OMT (Outright Monetary Transactions) – that gives the central bank the capability of intervening in the sovereign bond secondary market as long as a country is subject to a conditionality programme and has full market access. Furthermore, in June 2014, the ECB announced a broad range of standard and non-standard monetary policy measures in order to foster economic recovery, increase inflation rates towards the reference level, reducing financial fragmentation and supporting lending to the real economy. Apart from shaving the key interest rate by 10 basis points to 0.15 per cent, the ECB cut the marginal lending facility by 35 basis points to 0.40 per cent and reduced the deposits rate to negative levels (-0.1 per cent). Furthermore, the ECB decided to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment at least until the end of 2016 and announced measures to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. In particular, the Governing Council has decided to conduct a series of targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector (excluding loans to households for house purchase), over a window of two years. And decided to intensify preparatory work related to outright purchases of asset-backed securities (ABS). These measures have been contributing decisively to reduce the stress in financial markets and peripheral risk premium towards levels only seen before the international credit crisis. Given the return to a more positive framework, several domestic companies managed to access the international bond markets and equity markets registered significant gains since the minimum reached by mid 2012.

However, several challenges persist as fiscal consolidation is still unfolding, public debt levels remain high and the recovery path is still subject to uncertainty. In the event of negative developments in the financial markets, the Issuer’s ability to access the capital markets and obtain the necessary 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.

The current economic environment is a source of challenges for Banco BPI, and may adversely affect its business, financial condition and results of operations in the following ways:

- The business was affected by the factors mentioned above, namely through higher funding costs, both wholesale and retail, higher levels of impairments for credit, and by the depreciation of its share prices and asset values. In the case of further deteriorations on market conditions, Banco BPI will be affected. Any worsening of the current economic climate could jeopardise Banco BPI strategy and impact on its ability to meet the needs of its clients and adversely affect its profitability.
- Banco BPI is exposed to potential losses if certain financial institutions, or other counterparties to Banco BPI, become insolvent or are not able to meet their financial obligations to Banco BPI.
- 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. Banco BPI 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 Banco BPI and other financial institutions.
- In addition, external intervention from the EU and the International Monetary Fund (the "IMF") required Portuguese banks to comply with regulatory capital ratios that resulted in the recapitalisation of Portuguese banks. The Bank of Portugal has already implemented higher minimum core tier 1 ratios for Portuguese banks in December 2011 and December 2012 of 9 per cent. and 10 per cent., respectively. The financial sector will also continue to face a number of important challenges. In the context of the conclusion of the EFAP and the creation of the Single Supervisory Mechanism (SSM), the banking system must continue to reduce its high dependence on financing from the Eurosystem and manage its return to bond and capital markets.
- Uncertainty and increased volatility may possibly return in 2014: the relevant foreign demand may perform worse than expected, fiscal consolidation measures may need to be strengthened, international political factors or any event related to monetary policy normalisation (especially in the US or UK) may cause the return of instability to the international capital markets and an increase in risk aversion. A possible disruption episode in the Eurozone, though now less probable, would have unpredictable consequences given the dependence of the national economy from abroad.

### ***Economic and financial crisis in Portugal***

The economic and financial crisis in Portugal has affected negatively the Issuer's financial condition,

business and results of operations and any further deterioration of the economic conditions may further severely affect the Issuer.

Since a substantial part of its 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 21<sup>st</sup> century, mainly driven by domestic demand. The reduction in the pace of growth was mainly due to a decrease in external demand, as well as a lack of competitiveness compared to other economies. As a consequence of the financial crisis, the Portuguese economy worsened and by 2009 Portugal's gross domestic product (“GDP”) contracted by 2.9 per cent.<sup>1</sup> The economy recovered in 2010 but the intensification of the euro sovereign debt crises exposed the domestic vulnerability towards external financing and highlighted important imbalances that urged to be corrected in order to achieve a more sustainable growth path.

In April 2011, as a result of high levels of budget deficits and public debt, the Portuguese Government requested an international financial assistance from the IMF, the European Commission (the “EC”), and the ECB (the ECB, together with the IMF and the EC, the “Troika”).

On 5<sup>th</sup> May 2011, the Portuguese Government announced that it had entered into a Memorandum of Understanding with the Troika in relation to the Economic and Financial Assistance Programme (“*Programa de Assistência Económica e Financeira*”, the “PAEF”). The PAEF was approved by the EC on 10<sup>th</sup> May 2011 and by the Ministers of Finance of the EU countries on 16<sup>th</sup> May 2011. Accordingly, up to €78 billion were made available for the period from 2011 to 2014 to assist Portugal (the final figure is lower, around €75.4 billion, as the Portuguese Government decided not to use the final tranche, of €2.6 billion). This assistance was divided between €26 billion provided by the IMF under the “Extended Fund Facility”, with a variable interest rate, and the remaining €52 billion financed by the EU and was conditional on Portugal's compliance with a series of budgetary targets and structural measures, the implementation of which was monitored on a quarterly basis by the Troika over the course of the PAEF. The funding package included up to €12 billion for recapitalisation of the banking sector, from which only €5,6 billion have been used up until now. Until the first quarter of 2014, banks repaid *circa* €1.4 billion. Last June, due to pending Constitutional rules decisions regarding some of the measures of the 2014 Budget, the Government decided to allow the expiration of the Program without completing the 12th and final review and without receiving the associated final tranche. Thereafter, Portugal will be dependent from market sources to get financing.

Within this framework, economic activity has decreased in Portugal as a result of reduced public and private expenditure, limited financing and increased unemployment. Portuguese GDP contracted both in 2012 and 2013 by 3.2 per cent. and 1.4 per cent. respectively, while the unemployment rate has jumped to 15.7 per cent. in 2012 and to 16.3 per cent. in 2013. At the same time the value of the gross debt of the Portuguese Republic increased to 129 per cent. of GDP in 2013<sup>2</sup>.

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<sup>1</sup> Source: Instituto Nacional de Estatística (“INE”).

<sup>2</sup> INE.

Important steps towards the return to international primary bond markets have been taken, firstly by Portuguese companies and thereafter by the Portuguese Treasury. Since the beginning of 2013, the Portuguese Treasury has launched several issues in the primary bond market, with the aim of testing investors' appetite for Portuguese bonds, built a liquidity buffer and prepared the full return to regular issuing practice. In April 2014, the Treasury held the first plain market auction, issuing €750 million of 10-year bonds at a yield of 3.57 per cent. A second auction has occurred in June, with an additional placement of €950 million of 10-year bonds at a yield of 3.25 per cent. All debt issues have met ample demand and were successfully placed.

This success is partially explained by the favourable performance of the Portuguese economy, increasingly driven by external demand and more directed towards the tradable goods sector. It is also justified by the success in implementing the programme agreed with the EU/IMF, as it has been noticeable through the positive regular reviews that took place. The reduction in past imbalances – namely the deleveraging at the private sector level, public accounts consolidation and the achievement of net external lending capacity since 2012 – as well as the return to a more benign sentiment in financial markets towards the Economic and Monetary Union and the search for yield due to extremely low international interest rates, have also contributed to the positive outcomes so far.

As a result, the state financing needs for 2014 are fully met, and the Treasury will continue rolling over *circa* €20 billion in Treasury Bills (whose auctions have never been interrupted since the beginning of the Programme). The Treasury is also building a cash buffer in order to finance upfront its 2015 funding needs (estimated to be around €7.9 billion), as well as to improve the country's position in the transition period to regular primary market issues and strengthen investors' confidence. Overall, for the years 2015-17 the financing needs amount to €37.5 billion, considering the stabilisation of the short term debt at the above mentioned level. Additionally, it is still available a cash buffer of *circa* €6.4 billion, which refers to the Banking System capitalisation fund that has not been used so far, and could be available by October 2014 after the conclusion of the asset quality review and stress tests of Portuguese Banks currently being conducted at the initiative of the ECB. But despite the liquidity buffer, the country remains vulnerable against a potential worsening of sentiment in the international markets and higher long-term interest rates for public debt. In fact, the financing needs after 2016 remain considerable and the levels of indebtedness across all sectors remain high, in particular for the public sector.

### ***Economic outlook***

Domestic demand should stabilise but there are several obstacles to a more positive evolution. The increase in the unemployment rate over the recent years and in the fiscal burden have had a negative impact on the disposable income of Portuguese households. In the medium-term, however, these trends are expected to gradually change as the economy returns to positive growth while the unemployment rate should decline but keep close to historical highs and wage policies remain contained, both at the private and public sector level, suggesting that the evolution of disposable income and private consumption will also remain weak. Gross capital formation should register a gradually less negative performance in the near future reflecting on one hand the lowest pace of adjustment of the construction and public works, and on the other hand a positive response towards a more favourable fiscal framework and the improvement (although slow) in domestic demand.



Government forecasts point to economic growth of 1.2 per cent. in 2014 following a 1.4 per cent contraction last year. The economic performance improved since mid-2013, when economic recession ended after 11 consecutive quarters of GDP quarterly decline. In the first quarter of 2014 GDP posted an annual growth of 1.3 per cent, a small deceleration from 1.5 per cent registered in 4Q13, evolution that has been chiefly dictated by one-off factors – weather related, Easter time, temporary shut-down of a major exporter company – that should be offset in the future. Investment and private consumption are expected to recover following years of contraction and the negative contribution of public consumption should fall as the fiscal burden eases.

The exporting sector has played a significant role in lifting the country out of the recession. Portuguese companies have managed to increase their exporting market share and to enter in new large or fast-growing markets (such as China, the USA, Angola and Brazil). In light of this, Portugal achieved net external lending capacity for the first time in its 40-year democratic period. Export growth has been based on both improving price and non-price competitiveness, increase in the value-added ladder, as well as on the strong commitment by business leaders looking for diversification.

There are still negative risks to growth stemming from the international financial environment as the change in the stance of the US monetary policy might cause a disorderly increase in interest rates and renewed tensions in the peripheral sovereign markets. Furthermore, there are still additional risks in Europe related to progresses in the Banking Union as well as political risks related to the existing tensions between Ukraine and Russia. Internal risk factors are especially associated to the deleveraging process, especially in non-financial business sectors as well as to progresses in fiscal consolidation. In this field, new Constitutional Court rulings against government measures continue to be a key risk. Given present constraints, unemployment is expected to remain high, although with a slight decline and household's income should remain limited by restrictive wage policies both in the public and private sectors, justifying the expectations for moderate growth of private consumption. Despite the stagnation of disposable incomes, household's savings rate has been increasing and should stay close to historical highs in the near-term motivated by fiscal uncertainty. Net external demand is expected to keep adding to growth, although less than in the past, as domestic demand recovery is likely to put upward pressure on imports. A rebound in investment, particularly in private investment outside the construction sector, is deemed necessary to guarantee the increase in potential growth.

Furthermore, the net external lending capacity is expected to increase further as the strong external adjustment achieved since 2011 is seen to have been more structural than cyclical in nature. This is a key development in order to render Portuguese economic growth sustainable in the future. Although the macroeconomic scenario has been improving, downward risks to growth are still high and could negatively impact the Issuer's activity. An unexpected reversal in households' and businesses' confidence, a fall in external demand, an unexpected tightening in financial conditions or political instability could jeopardise the recovery. Furthermore, if downside risks to growth materialise, the expected improvement in external financing capacity would revert and Portugal could become more vulnerable to fluctuations in financial markets.

Current economic conditions in Portugal imply the containment in the demand for credit and for financial products and services in the markets in general. Alongside with asset quality deterioration, these may have an adverse effect on financial conditions and results of Banco BPI.

### ***Risks relating to financial stability and sovereign risk***

The Economic and Financial Assistance Program (PAEF) that was in place from May 2011 until June 2014, included a set of measures aimed at preserving the stability of the financial sector and strengthening the capital ratios, maintain liquidity and support the orderly deleveraging process, while ensuring the financing of the productive sector. The Core Tier 1 ratio of the Portuguese Banks was 12.3 per cent as of December 2013, which represents an improvement in 4.2 percentage points compared to 2010 and exceeds the PAEF target of 10 per cent, while the credit-to-deposits ratio has fallen below the 120 per cent indicative target to 117.4 per cent at the end of 2013, down from the peak of 166 per cent recorded in 2010.

The Treasury has already met financing needs for the current year and has started pre-financing for 2015 after it launched several issues in the primary bond markets in recent months. Notwithstanding the strong commitment of the Portuguese authorities in completing the PAEF and preparing the post-programme period, several risks remain, mainly related to the momentum of the ongoing recovery, the improvement in global economic conditions, including negative changes in the credit risk of other countries in the EU, the solvency of Portuguese or international banks or changes in the Eurozone.

Since the beginning of 2011, Portugal suffered several rating downgrades. Fitch Ratings Limited (“**Fitch**”) downgraded Portugal to BB+ in November 2011, Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”) to BB in January 2012 and Moody’s Investors Service Ltd (“**Moody’s**”) to Ba3 in February 2012. As a consequence, ratings of Portuguese banks were also downgraded. However, the sovereign rating outlook has improved in recent months, with correction of fiscal and external imbalances and the positive mood regarding Portuguese bonds among foreign investors. Going forward, as long as fiscal consolidation and positive growth momentum proceed, rating agencies are expected to gradually upgrade their rating notches.

On 11<sup>th</sup> April 2014 Fitch revised the outlook to positive from negative and affirmed the BB+ rating. On 9<sup>th</sup> May 2014 Standard & Poor’s revised the outlook to stable from negative and affirmed the BB rating. On 9<sup>th</sup> May 2014 Moody’s upgraded the rating to Ba2 from Ba3 and placed the rating on review for possible further upgrade.

Fitch and Moody’s positive outlook and Standard & Poor’s stable outlook reflect the progress in reducing the budget deficit, the recovery of the economy, the improvement in the fiscal financing conditions, the access to the public debt markets and the sizeable cash buffers built up.

According to Fitch’s press release of 11<sup>th</sup> April 2014, future developments that could individually or collectively result in an upgrade to investment grade include: deficit reduction remaining on track and consistent with a decline in the public debt ratio; continued economic recovery and evidence that private debt peaks and starts to gradually decline; securing a track record of market access on terms consistent with long-term public debt sustainability and sustained current account surpluses consistent with a reduction in external debt ratios. Fitch’s sensitivity analysis does not anticipate developments with a high likelihood of leading to a negative rating change. A stabilisation of the Outlook could result from a material divergence from the fiscal consolidation path, resulting in a higher debt ratio; a failure to sustain economic recovery and macroeconomic rebalancing and adverse shocks from domestic politics and/or market financing.

According to Moody's rating action of 9<sup>th</sup> May 2014, the rationale for review for upgrade is based on the prospects for an expenditure-focused and sustainable reduction in the budget deficit, the evaluation of the medium-term fiscal plan presented by the government and the possibility for a broad consensus to emerge on the need to maintain strict fiscal policies. An upgrade of the rating beyond Ba1 at the conclusion of the review and a downgrade over the medium term are unlikely. If the rating agency concluded that the likely path of fiscal consolidation was not sufficient to bring the public debt ratio onto a clear downward trend, Moody's would confirm the Ba2 rating.

### ***Risks relating to the Restructuring Plan***

According to the provisions in paragraph 6 of article 2 of Ministerial Order ("*Portaria*") no. 117-A/2012, of 17<sup>th</sup> May, which regulated certain aspects of the Bank Recapitalisation Law, a restructuring plan has been submitted by Banco BPI, on November 2012, to the Portuguese State and the Directorate-General for Competition.

The EC has already concluded the analysis of the restructuring plan of Banco BPI, having concluded that, considering the measures provided, the injection of €1.5 billion by the Portuguese State in Banco BPI, in June 2012, was compatible with the EU rules and guidelines regarding State aids. On 24<sup>th</sup> June 2013, the EC adopted a formal decision concerning the restructuring plan of Banco BPI. However, until the date of approval of this Base Prospectus, the EC has not proceeded to the official disclosure of that decision.

The following quantitative targets have been established for December 31<sup>st</sup> 2015 (amounts referred to the domestic activity): (1) reduction of core assets to €30 030 million; (2) decrease to 684 the number of business units in Portugal; and (3) decrease to 6000 of the number of employees.

In March 2014, the amount of core assets was €30 334 million, 304 million above the target agreed with the European Directorate-General for Competition (DGComp) for 2015. Notwithstanding the above, Banco BPI holds, at 31<sup>st</sup> March 2014, a portfolio of available financial assets for sale of €3.5 million of short term securities considered core assets, which may, at any time, be sold to achieve this target.

Regarding the number of business units, Banco BPI already achieved the target set in the Plan of Restructuring for 2015, for this area, having by the end of March 2014, 683 business units in Portugal. Additionally, on 28<sup>th</sup> June 2014 Banco BPI reduced more 28 business units in Portugal.

The number of employees at the end of March 2014 was 6.254, so 254 above the target set in this area of the Restructuring Plan for 2015. Banco BPI considers this objective achievable, and does not anticipate any risk that might compromise this result.

The Restructuring Plan ends on 31<sup>st</sup> December 2015 or earlier, when the three objectives stated above are all met.

The €1.5 billion Core Tier 1 Bonds subscribed by the Portuguese State were already totally redeemed.

### ***Banking Markets and Competition***

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

Banco BPI faces intense competition in all of its areas of operation (including, among others, banking, investment banking, specialised credit and asset management). The competitors of Banco BPI 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. Currently, the Portuguese financial system is quite concentrated, with the five largest banks controlling 79.1 per cent. of total assets, and the largest two, almost 42.7 per cent. The principal competitors of Banco BPI in the banking sector (ranking in terms of assets as of 31<sup>th</sup> June 2013) are Caixa Geral de Depósitos, the Millennium BCP Group, Banco Espírito Santo Group and the Santander/Totta Group.

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

Additionally, the business, earnings and financial condition of the Issuer have been 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.

### ***Banco BPI S.A.'s exposure to adverse political, governmental or economic developments related to its international expansion***

Banco BPI continues to pursue its international strategy, with particular emphasis on its market position in Angola and Mozambique. Banco BPI can give no assurance that it will be successful in Angola, Mozambique or any of the other international markets where it operates. Banco BPI'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 Banco BPI's financial condition, business and its results of operations.

As of 31<sup>st</sup> December 2013, Banco BPI international operations generated a net income of €95.2 million.

In Angola and Mozambique, the two foreign markets to which the Group is most exposed, some of the major risks arising for its activity came from the challenges that each country faces given their stage of economic and social development. In both countries prevails the necessity to expand their economies beyond the sectors related to natural resources or large investment projects, in favor of hand-labor intensive activities.

In Angola, in accordance with the “*Relatório de Fundamentação do Orçamento de Estado para 2014*”, in 2013, the oil sector accounted for 41 per cent of the GDP, 6 per cent of tax revenues and 98

per cent of export<sup>3</sup>. The possible postponement or failure to achieve the objective of diversification may endanger future macroeconomic stability and, therefore, compromise the activity or the results of the BPI Group.

The diversification of the Angolan economy presupposes the strengthening of sectors other than activities related to oil sector, with the aim of generating jobs, required taking into account population dynamics (population very young, concentrated in major cities, mostly affecting the agricultural sector and informal activities) and also reduce the vulnerability of the sector to the Angolan economy and oil prices in the international market.

The subsequent worsening of the global financial crisis in late 2008, illustrate this vulnerability. In 2009 the average price of a barrel of oil fell by about 30 per cent, from USD 97 / barrel (USD / b) to USD 61.8 / b, remaining below USD 80 / b in 2010. Consequently, economic activity in Angola suffered a sharp deceleration, from a systematic annual growth in the double digits for 2.4 per cent and 3.4 per cent respectively in 2009 and 2010; public accounts recorded deficits, breaking successive years of surpluses; the current account recorded a deficit of 7.5 per cent in 2009 in contrast to robust surpluses in previous years; and foreign reserves declined to 12.6 billion in 2009<sup>4</sup> (USD 17.5 billion before).

The Angolan market, in which the BPI Group is present through Banco de Fomento Angola (“BFA”), held in 50.1 per cent by Banco BPI in partnership with Unitel, which holds the remaining 49.9 per cent, is the most relevant market in the international activity of BPI Group. On 31<sup>st</sup> December 2013, BFA’s total assets amounted to €6,409 million (15.0 per cent of total consolidated Group), the portfolio of loans to €1,072 million (4.1 per cent of total consolidated Group) and resources of customers to €5,645 million € (17.9 per cent of total of customer resources taken by the Group). At the end of 2013 14.0 per cent of the equity of the Group<sup>5</sup> was assigned to the activity of Banco de Fomento Angola.

Mozambique reveals a marked dependence on designated mega-investment projects, typically associated with the exploitation of natural resources (except aluminum smelter), in particular projects in the energy area.

It’s also clear the concentration of economic activity in capital-intensive sectors with high import content and low contribution to the balance of public accounts: refer for example, that exports of aluminum (aluminum smelter was one of the first projects of large-scale investment in Mozambique) accounted for over 70 per cent of total exports in 2012; the first 9 months of 2013, revenue from the mega-investment projects accounted for only about 11 per cent of government revenue; and the balance current in 2013 a deficit in excess of 40 per cent GDP<sup>6</sup>. On the other hand, Mozambique’s economy also notes remarkable degree of dependence in respect of external grants, which represented 20 per cent of government revenue in 2013<sup>7</sup>. Should also be noted that the country still reveals a very significant development potential related to the progressive strengthening of coal

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<sup>3</sup> Source: Ministry of Finance and National Bank of Angola.

<sup>4</sup> Source: International Monetary Fund.

<sup>5</sup> Excluding the fair value reserve (net of deferred tax) on financial assets available for sale portfolio.

<sup>6</sup>Source: Bank of Mozambique and the International Monetary Fund.

<sup>7</sup> Source: Ministry of Finance.

mining (whose contribution to GDP is still very small) as well and because of the future exploitation of vast reserves of natural gas that will put potentially among the biggest suppliers worldwide. In this context, the opportunities and challenges are very significant, generating possible adverse developments for the future activity of the Group given the vulnerability that Mozambican economy's face to commodity prices in the international market, the feeling and degree of risk aversion in International or the availability / capacity of donor economies maintain the pace of sending markets donations.

In both cases, it should be added to economic factors other risks such as the possibility of legislatives and taxes changes or related to implementation capacity framework and ease of doing business, including any restrictions on the expatriation of capital and / or payment of dividends.

Some factors that constrain and influence the private activity, including the banking sector, are the non-convertibility of currency and existing bank transfers, limiting the ability to enforce contracts and warranties and other limits limitations related to disability in terms of physical infrastructure, lack of energy and water supply and lack of skilled labor.

These factors could have a material adverse effect on the financial position of Banco BPI, in its business, in its operating results and / or reputation.

### ***Financial sector regulation***

Banco BPI 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 EBA, the European Securities and Markets Authority ("ESMA") and the CMVM, as well as the National Bank of Angola ("*Banco Nacional de Angola*") and other supervision authorities, from the EU and the countries in which Banco BPI 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 implies high costs of time spending and other resources. Additionally, non-fulfilment of the applicable regulations may cause damages to the Issuer's reputation, application of penalties and even loss of authorisation to carry out its activities.

As a consequence of the persistence of the financial crisis and the subsequent government intervention, there has been and is expected to continue to be a substantial increase of regulation in the financial services sector, 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 Banco BPI participates, or that the fees or commissions that Banco BPI charges on certain loans or other products must be changed, and consequently any of these events may have a material adverse effect on Banco BPI'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, namely of the credit risk, market (currency and trading portfolio risks included) and operational risks, which is calculated according to the prudential regulations in force.

Regarding credit risk, BPI Group applies the standard approach to obtain the prudential capital requirements. As to the operational risk, BPI 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 Banco BPI, pursuant to the applicable law or regulations in force.

In 2011, the Bank of Portugal decided to focus the capital requirements within the definition of Core Tier 1. Following the PAEF agreement, the Bank of Portugal established (pursuant to its Regulation 3/2011) that financial institutions subject to prudential regulation should maintain a consolidated Core Tier 1 ratio not less than 9 per cent. as of 31<sup>st</sup> December 2011, achieving 10 per cent. until 31<sup>st</sup> December 2012.

The own funds designated as Core Tier 1 comprise the paid capital, the issue premium, reserves, results and any other high quality instruments in terms of permanency and loss absorption capacity, deducted from eventual losses and certain autonomously unrealised elements, on a perspective of the company continuous activity.

Given the increase in the systemic risk, as a result of the Eurozone sovereign debt crisis, the European Council of 26<sup>th</sup> October 2011 approved several measures in order to boost the confidence on the European-Members sovereign debts and financial markets.

On 8<sup>th</sup> December 2011, the EBA enacted a Recommendation (EBA/REC/2011) whereby the European banks should make a temporary capital buffer that could allow them to pursue the 9 per cent. Core Tier 1 ratio by 30<sup>th</sup> June 2012, considering the exposition to sovereign debt calculated at market prices of 30<sup>th</sup> September 2011. This EBA Recommendation was endorsed in Bank of Portugal Regulation 5/2012.

The capital buffer was implemented as a temporary requirement and should have improved or contributed to the improving of depositors and investors' confidence on the EU financial institutions.

Banco BPI was one of the 71 European Banks submitted to the recapitalisation exercise proposed by the European Banking Authority in 2011. Based on 30<sup>th</sup> September 2011 exposures and market prices, the temporary capital buffer identified for BPI amounted to €1,389 million, resulting almost entirely from the exposure to sovereign debt (€1,359 million), namely Portuguese public debt (€989 million). Excluding the Greek public debt for which BPI registered impairment in 2011 accounts, the sovereign buffer amounted to €1,184 million.

The Core Tier 1 Bonds subscribed by the Portuguese State within BPI's recapitalisation process, pursuant to the Bank Recapitalisation Law were added to the elements within the Core Tier 1

framework.

Banco BPI has already redeemed the total of the €1.5 billion of capital instruments of eligible Core Tier 1 Bonds issued on 29<sup>th</sup> June 2012:

- €200 million in August 2012,
- €100 million in December 2012,
- €200 million in March 2013,
- €80 million in July 2013,
- €500 million in March 2014, and
- €420 million in June 2014.

The redemptions have occurred ahead of what was foreseen in the Recapitalisation Plan and have been supported with retained earnings and the deleveraging of assets, (save the first redemption which have been made with the amount of the capital increase of €200 million with a preference rights for shareholders of August 2012) whilst complying with the minimum Core T1 ratio determined in the EBA 2011 Recommendation.

In the end of 2010, the Basel Committee on Banking Supervision issued recommendations regarding the amendments to the then current applicable rules on the calculation of capital requirements for international banks (mentioned as Basel II) which are addressed on the additional Recommendations usually known as Basel III. These Recommendations were finalised on 1<sup>st</sup> June 2011 and include some amendments to the capital ratios as well as the inclusion of leverage and liquidity ratios.

Meanwhile, Basel III Recommendations were enacted as EU law through the CRD IV and the CRR.

CRR is directly applicable to the European Member States since 1<sup>st</sup> 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<sup>st</sup> January 2019 (Core Tier 1 of 4.5 per cent., Tier 1 of 6 per cent. and a total ratio of 8 per cent. in 2019).

By 31<sup>st</sup> December 2013, Member-States were required to adopt and publish the laws, regulations and administrative provisions necessary to comply with CRD IV. Portugal has not yet adopted and published all laws, regulations and administrative provisions that are necessary for this purpose.

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, are predicted to apply gradually from 2016, although the Member States may anticipate this.

Considering the minimum capital levels already defined on both the CRR and CRD IV, banks shall comply with:

- Minimum Common Equity Tier 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).

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

The Bank of Portugal has determined a minimum Common Equity Tier 1 ratio of 7.0 per cent. calculated with transitional arrangements and to be complied from the 1<sup>st</sup> January 2014 onwards (Regulation 6/2013).

On 22<sup>nd</sup> July 2013, EBA issued a new Recommendation on capital preservation, revoking the 2011 Recommendations. Accordingly, banks shall keep a capital amount (in Euros) necessary to comply with the capital requirements as set out in the previous Recommendation at 30<sup>th</sup> June 2012. The possibility to maintain a lower capital level is also taken into account, provided that a 7.0 per cent. Common Equity Tier 1 ratio is fulfilled according to CRD IV fully implemented rules.

On 23<sup>rd</sup> October 2013, the ECB announced the details *vis-à-vis* the complete assessment to be done as prelude to its upcoming supervision responsibilities within the single supervisory mechanism. The assessment begun in November 2013 and shall last for 12 months. The reference ratio value for such assessment will be 8 per cent. Common Equity Tier 1, according to the CRD IV definitions taking into account transitional arrangements.

As of 31<sup>st</sup> December 2013, BPI presented the following capital ratios:

- Core Tier 1 ratio according to the rules of the Bank of Portugal prevailing for 2013 of 16.5 per cent., which corresponds to an excess capital of €1,375 million relative to the 10 per cent. requirement;
- Common Equity Tier 1 according to CRD IV / CRR rules with full implementation of 11.2 per cent., which corresponds to an excess capital of €713 million relative to the minimum Common Equity Tier 1 ratio of 7.0 per cent. (Common Equity Tier 1 ratio of 4.5 per cent. plus the capital conservation buffer of 2.5 per cent.);
- Common Equity Tier 1 according to CRD IV / CRR rules with phasing-in of 15.6 per cent., which corresponds to an excess capital of €1,468 million relative to the minimum reference ratio of 8 per cent. set by the ECB for the asset quality review assessment.

On the date hereof, BPI Group has no further capital needs, according to the aforementioned rules. However, if such rules or capital requirements are amended, Banco BPI may have to implement adequate measures in order to comply with such requirements. These measures may include one or

more capital increases, or other transaction aimed at increasing its own funds.

On 23<sup>rd</sup> April 2014, the shareholders of Banco BPI approved the capital increase up to €113,849,649, to be carried out through contributions in kind. Banco BPI carried out a voluntary public exchange offer (the “Offer”), directed to the holders of the preference shares and subordinated debt securities, issued by BPI Capital Finance Ltd and by Banco BPI, respectively, offering in return exclusively shares issued by Banco BPI (the “Offer”).

The Offer has been accepted by holders of securities in the amount of €115.8 million, which represents 91 per cent of those who were object of the Offer (€127 million). As a result of the acceptances of the Offer, 66,924,237 new Banco BPI shares have being issued, with an issue price of €1.54 each, i.e. at a discount of 5 per cent, calculated according to the terms of the Offer.

The Share Capital of the Bank was increased by €103,063,324.98, from €1,190,000,000.00 to €1,293,063,324.98 represented by 1,456,924,237 ordinary, book entry, nominative shares with no par value. The registration of the new Share Capital has been made on 16<sup>th</sup> June 2014.

With the completion of this Offer, Banco BPI reaches the following major objectives:

- . Strengthening of the Core Tier 1 capital by €113 million, of which €103 million in capital;
- . Strengthening of the Core Tier 1 ratio, according to CRD IV / CRR fully implemented rules, from 9.7 per cent to 10.4 per cent in March 2014 (proforma), to which corresponds an excess capital of €602 million relative to ECB’s capital benchmark of 7 per cent;
- . Strengthening of the Core Tier 1 ratio, according to CRD IV / CRR rules for 2014 (Phasing-in), from 13.2 per cent to 13.7 per cent, in March 2014 (proforma), to which corresponds an excess capital of €1,094 million relative to ECB’s capital benchmark of 8 per cent.

### ***Requirements related to the liquidity ratios***

Basel III recommendations endorse the implementation of liquidity coverage ratios of short and medium/long term, known as Liquidity Coverage Ratio and Net Stable Funding Ratio<sup>8</sup>. The Liquidity Coverage Ratio, which is expected to be implemented, gradually starting from 2015, addresses the sufficiency of the high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. The Net Stable Funding Ratio, to be implemented in 2018, 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. In 2015, the financial institutions should maintain in its own portfolio high quality liquidity assets corresponding to 60 per cent. of the net assets’ exits in the following 30 days.

The performance of the financial assets is in general inversely correlated with its liquidity. The fulfilment of those ratios by Banco BPI may lead to the constitution of portfolios with high liquidity assets but low profitability. Additionally, it may lead to an increase in the financing costs, since the ratios increase favours the long-term financing over the short-term. These changes may have a

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<sup>8</sup> Ratios defined at: <http://www.bis.org/publ/bcbs188.pdf> and <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0001:0337:EN:PDF>

negative impact on Banco BPI's results of operations.

As of 31<sup>st</sup> March 2014, the Liquidity Coverage Ratio and the Net Stable Funding Ratio were 464 per cent and 106 per cent, respectively, according to CRD IV fully implemented rules.

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

The Bank of Portugal has established minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Any change in the applicable requirements could have a material adverse effect on the results of operations of Banco BPI. For instance, it is under discussion the introduction of the concept of "provisions for expected losses" replacing the current concept of "incurred losses" pursuant to IAS 39, which could lead to a negative impact on Banco BPI's results.

#### ***Compliance Risks***

Banco BPI is subject to rules and regulations related to the prevention of money laundering and terrorism financing. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although Banco BPI believes that its current anti-money laundering and anti-terrorist financing policies and procedures are adequate to ensure compliance with applicable legislation, Banco BPI 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 Banco BPI'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 Banco BPI***

The harmonisation of the deposit guarantee systems throughout the EU will represent significant changes to the mechanisms of the deposit guarantee systems currently in force.

The consequences of the implementation of such system are still unclear.

#### ***Recovery and Resolution of Credit Institutions***

On June 2013, the European Council approved a proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment funds (the "**Proposal**").

Although the Proposal was not yet approved, it is known that it comprehends so far three classes of measures that can be implemented by the competent authorities in order to prevent or reduce the impact of a financial crisis or collapse related to a financial institution or investment fund. Such measures contain the preparatory and preventive measures, prior supervision intervention, and instruments and powers of resolution. The implementation of these measures and the exercise of these powers will directly affect the rights of shareholders and creditors.

If the Proposal is enacted into EU law and as a result of any implementation thereof into Portugal, the Covered Bonds to be issued under the Programme may be mandatory written down or converted into more subordinated instruments, for instance, ordinary shares of the Issuer.

#### ***Changes to tax legislation and to other laws or regulation***

Banco BPI might be adversely affected by changes in the tax legislation and other laws or regulations applicable in Portugal, EU, Angola and other countries in which it operates or may operate in the future, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. The measures taken by the Portuguese Government in order to execute the PAEF 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 Banco BPI's business, financial condition and results of operations.

#### ***Risks relating to legislation on deferred tax assets***

The CRR (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26<sup>th</sup> June 2013) – 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 presented to the national Parliament, on 12<sup>th</sup> June, 2014, Draft-Law No. 235/XII, which proposes the enactment of 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 Draft-Law foresees that any DTA arising from the abovementioned items, accounted in taxable periods starting on or after 1<sup>st</sup> January 2015, or registered in the taxpayers accounts in the last taxable period prior to that date, may be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the annual financial statements of the institution are formally approved by the competent corporate bodies; or (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorisation by the regulator or supervisory body. The conversion of DTA depends, however, on the constitution of a special reserve, equivalent to the amount of the tax credit obtained increase by 10 per cent, as well as on the issuance of warrants to the Portuguese Republic. The tax credits obtained with the conversion of DTAs may be offset against any State taxes on income and on assets payable by the taxpayer or any companies included in the same tax group or in the same group for purposes of prudential consolidation under the CRR.

The Draft-Law is pending approval by the Portuguese Parliament, and may be subject to further amendments. In any case, it is more likely than not that these measures will be approved and enter into force.

### ***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 and operational 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' business. Adverse changes in the credit quality of Issuer' borrowers and counterparties, a general deterioration in Portuguese or global economic conditions, or increased systemic risks in financial systems, could affect the recovery and value of the Issuer' 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. 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' 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.

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 BPI Group transactions are mainly located in Portugal, Banco BPI 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 Banco BPI customers and their ability to repay their loans may have a significant adverse effect on Banco BPI's financial condition and results of operations.

An increase in the BPI 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.

In the 1<sup>st</sup> quarter of 2014 impairments of €45.3 million (0.71 per cent of loan portfolio, annualized) were accounted for in the consolidated accounts. Moreover recovered €4.3 million of loans and interest previously written off (0.07 per cent of the loan portfolio, annualized), so after impairments after deduction of recoveries mentioned above amounted to €41.1 million, which represents 0.64 per cent of the loan portfolio, annualized.

On March 31<sup>st</sup>, 2014, loans in arrears for more than 90 days amounted to €982 million in the consolidated accounts and the ratio of loans in arrears for more than 90 days stood at 3.7 per cent. Loan impairments (accumulated at the balance sheet) were €1,023 million at 31 March 2014 and covered 104 per cent of the credit risk.

On March 31<sup>st</sup>, 2014, the credit risk<sup>9</sup> amounted to €1,292 million in the consolidated accounts and credit ratio in risk stood at 5.2 per cent. The coverage of the credit risk for impairments was 79 per cent.

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<sup>9</sup>Calculated in accordance with the regulatory Instruction (“*Instrução*”) no. 13/2006 issued by the Bank of Portugal. The perimeter of the Group considers subject to the supervision of the Bank of Portugal BPI Life and Pensions, recognised by the equity method (as in the consolidated accounts in accordance with the standards IAS / IFRS, that entity is consolidated in full).

### ***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 to mitigate and control these and other market risks to which the Issuer is exposed and exposures are 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 on the results of its operations.

### ***Infrastructure Risk***

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

### ***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 have 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 Banco BPI own portfolio***

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

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

As of 31<sup>st</sup> December 2013, Banco BPI had a consolidated portfolio of available-for-sale financial assets amounting to €9,694.2 million. On that date, the portfolio of available-for-sale financial assets in the domestic operations' balance sheet totalled €7,408 million.

As of 31<sup>st</sup> March 2014, Banco BPI had a consolidated portfolio of available-for-sale financial assets amounting to €8,534.9 million. On that date, the portfolio of available-for-sale financial assets in the domestic operations' balance sheet totalled €6,031.3 million.

Banco BPI concluded on 31<sup>st</sup> March the sale of 50% of the position held in medium and long term public debt of Portugal and Italy, in the nominal amount of €850 million and €487.5 million, respectively. By the end of 2013, the Bank had already sold its entire position in Irish public debt, in the amount of €335 million.

The decision of the Bank, which aimed at reducing the exposure to public debt and, thus, the future volatility of the capital ratios, is justified for two reasons:

(i) The entry into force in 1 January 2014 of the new European directive CRD IV, which transposes the Basel III regulatory standards into EU law. With this directive, the unrealized losses associated to the Government bonds and to the respective coverage positions are fully reflected, at market prices at each moment, in the Common Equity Tier 1 ratio (CET1) fully implemented, which increases the volatility of the capital ratios, which thus remain permanently dependent of the fluctuations in the debt market.

(ii) The recommendations from supervisory and community authorities, which have been advising a reduction of the link between the sovereign risk and the banking sector risk.

The operation completed is a direct consequence of the changes in the regulatory framework described above and does not reflect any judgment, present or future, concerning the bonds in question.

The sale of the bonds of Portugal and Italy generated, only in the securities, capital gains of €64 million. The interest rate risk of the bonds was covered by derivative instruments (interest rate swaps) and with the sale of the securities, the coverage position was closed, which generated, *per se*, losses of €196 million.



The total impact from the sale of the securities and the closing of the referred coverage position resulted in total losses of €132 million before taxes and €102 million after taxes.

Following this operation, Banco BPI holds a portfolio of €850 million of Portuguese public debt and €487.5 million of Italian public debt, maturing in 2019.

Banco BPI 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 Banco BPI 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 31<sup>st</sup> December 2013, the volume of assets qualifying for ECB financing amounted to €11,138 million, net of value appreciation and haircuts. Considering the portfolio drawings at that date for repo operations with the market of €831 million and for funding from the ECB of €4,000 million, Banco BPI still had assets eligible for ECB funding of €5,487 million.

Banco BPI 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. During 2013, Banco BPI repaid medium and long-term debt totalling €69 million (net of repurchases) and received from repayment and sale €1,397 million on the securities portfolio. The funding obtained from the ECB in June 2012 amounts to €4,000 million, and matures in 2015 with the possibility of being repaid early from 30<sup>th</sup> January 2013.

The amount of medium and long term maturing debt net of redemptions of bonds held by Banco BPI

in 2014 is €91 million.

The needs of debt and medium-term refinancing to happen in the coming years are little expressive: €1.1 billion from 2014 to 2018.

### ***Counterparty Risk***

The Issuer' 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 Banco BPI 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.

Credit risk exposures are spread across a wide range of counterparties, namely financial institutions (4 per cent), industrial counterparts (4.4 per cent), small businesses (11.4 per cent) and private individuals (31.4 per cent) over a range of geographic regions, Euro Zone (83.9 per cent); EU other countries (0.8 per cent); and other countries (15.3 per cent). The majority of exposure is to Portuguese counterparties (73.3 per cent), but there is also significant exposure to international financial institutions (3.3 per cent) and to Angolan counterparties as a result of the operations of BFA (12 per cent).

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 Covered Bonds issued under the Programme.

### ***Hedging Risk***

Banco BPI 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, Banco BPI 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, Banco BPI could incur losses that might result in a material adverse effect on its business, financial condition or results of operations.

### ***Reputational Risk***

Banco BPI, 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, Banco BPI continuously inspects and evaluates the adequacy of its activities to the aforementioned. Moreover, each company of BPI 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 BPI Group have identification mechanisms, internal control and communication systems, as well as human and material resources, in order to 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 BPI Group's companies already comprise most of the applicable legislation and regulations.

Banco BPI'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 BPI 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 to analyse such occurrences and take or implement the adequate measures in order to prevent that BPI Group becomes 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.

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

Although Banco BPI believes that its current anti-money laundering and anti-terrorism financing

policies and procedures are adequate to ensure compliance with applicable legislation, Banco BPI 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 Banco BPI, may have serious reputational, legal and financial consequences, which could have a material and adverse effect on the Banco BPI'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 Portugal, could materially affect the Issuer's business, the products and services it offers or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

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

### **Rating Risk**

Credit rating agencies regularly assess Banco BPI 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 sector in general and the Portuguese banking system in particular.

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

Standard & Poor's<sup>10</sup>: BB-/ B Stable;

Moody's<sup>11</sup>: Ba3/Not Prime Stable;

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<sup>10</sup> Standard & Poor's rating decision on 14<sup>th</sup> February 2012. On 22<sup>nd</sup> January 2014 Standard & Poor's reaffirmed the credit ratings (long-term/short-term), with a negative outlook and removed the long-term rating from CreditWatch with negative implications. On 21<sup>st</sup> May 2014 Standard & Poor's upgraded the outlook for Banco BPI's rating from negative to stable.

<sup>11</sup> Moody's: Rating decision on March 28<sup>th</sup>, 2012 On January 17<sup>th</sup>, 2014 Moody's revised the Outlook to credit rating from negative to stable and affirmed its credit ratings (LT / ST).

<sup>11</sup> Rating decision on 25<sup>th</sup> November 2011. On 10<sup>th</sup> July 2013, Fitch Ratings affirmed the credit ratings (long-term/short-term), with negative outlook, and individual rating (viability rating).

Fitch<sup>12</sup>: BB + / B Negative.

In January 2014, Moody's upgraded the outlook of Banco BPI rating from negative to stable. In this action, Moody's underlines that the credit profile of the Bank shall be sufficiently resilient against any additional pressure on asset quality and profitability. In May 2014 S&P upgraded the outlook of the rating of Banco BPI and other performances banks from negative to stable and reaffirmed the ratings of long and short term.

The current long-term rating assigned to Banco BPI by Moody's and Fitch ratings are equivalent to the Republic. In the case of Standard & Poor's, the rating of Banco BPI is 1 notch less than the level of the Republic.

To the extent that there are additional reductions rating of the Republic 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 Banco BPI credit. Additional lowering of the credit ratings of Banco BPI may have implications on credit ratings of collateralized debt issued by the Banco BPI which, in turn, can affect the portfolio of assets eligible for funding from the Eurosystem and increase the cost of Banco BPI resources.

### **Currency risk in International operations**

International operations are exposed to foreign exchange risk, which is reflected mainly in the expression of results in euros and balance the respective subsidiaries of the Group, for the purpose of consolidation. It is relevant to the effect of changes in exchange rates of their local currencies against the euro and the exchange rate of the 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 dollars.

Consequently, even if the amount of revenues, costs and profits of the BPI Group remains unchanged in local currency, changes in exchange rates may affect the amount of income, costs and profits declared in the statement of income of BPI Group. The currency exposure of Banco BPI results mainly from the banking activity of the BFA in Angola, but also, although to a much lesser extent, the activity of BCI – Banco Comercial e de Investimentos, S.A. (“BCI”). 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. In late March 2014, about 46 per cent of deposits and 37 per cent of the loan portfolio was denominated in dollars. A substantial portion of revenue and costs are thus expressed in American currency or indexed to this.

If the value of the euro were to rise significantly against other currencies, especially the U.S. dollar and the Angola Kwanza, the values of balance sheet items and account for results expressed in these currencies will translate into relatively lower values when converted to euros. The BPI Group manages the currency risk, possibly by its coverage to the extent and in the manner deemed appropriate at all times. However, it is not ensured full coverage of exchange risk

participation of BFA.

### **Strategy Risk**

Banco BPI is subject to risks of strategy. Exists the possibility that the Banco BPI 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 Banco BPI 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:

La Caixa: Banco BPI and La Caixa 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: Banco BPI 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 BPI. BPI also provides a supply credit insurance for domestic and foreign customers, through a collaboration protocol with COSEC, 50 per cent owned by BPI in partnership with Euler Hermes (Allianz Group entity), which holds the remaining 50 per cent.

Unitel: Banco BPI with Unitel has a strategic partnership with Banco de Fomento, SA (BFA) and Unitel holds 49.9 per cent equity holder of BFA and BPI and the remaining 50.1 per cent. This partnership aims at the development of banking activity of BFA in Angola. In December 2008, a shareholders' agreement between Banco BPI and Unitel was concluded containing, among others, rules on the composition of the governing bodies and on the transfer of shares of BFA.

### ***Other Risks***

As mentioned above, Banco BPI 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 Banco BPI and to which it is exposed, Banco BPI may not ensure that it will not be affected by the materialisation of risks currently unknown. Banco BPI 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 COVERED BONDS**

### **Portuguese Mortgage Covered Bonds Legislation**

The Covered Bonds Law came into effect on 20<sup>th</sup> March 2006 and the Bank of Portugal Regulations came into effect on 11<sup>th</sup> October 2006. The protection afforded to the holders of Covered Bonds by means of the special creditor privilege on the Cover Pool is based only on the Covered Bonds Law. There is still limited track record for Covered Bonds in relation to the operation of the Covered Bonds Law.

### **Obligations under the Covered Bonds**

The Covered Bonds will not represent an obligation or be the responsibility of the Arranger in that capacity, the Common Representative or the Dealer in that capacity or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators.

### **Extended Maturity of the Covered Bonds**

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

### **Benefit of special creditor privilege (“*privilégio creditório especial*”)**

The holders of Covered Bonds issued by the Issuer under the Programme whether outstanding at the date hereof or in the future benefit from a special creditor privilege (“*privilégio creditório especial*”) over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (See *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also

preferred creditors of the Issuer which benefit from the above mentioned special creditor privilege (“*privilégio creditório 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 Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

### **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 Covered Bonds, including with respect to certain determinations the Agent must make.

### **Factors which are material for the purposes of assessing the market risks associated with Covered Bonds issued under the Programme**

The Covered Bonds may not be a suitable investment for all investors.

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor’s financial activities are principally denominated;
- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC, as amended by EC Council Directive 2014/48/EC, on the taxation of savings income (the “**EU Savings Directive**”), Member States are required to provide to



the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1<sup>st</sup> January 2015, in favour of automatic information exchange under the EU Savings Directive.

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

### **The proposed financial transactions tax ("FTT")**

The European Commission published a proposal for a Directive for a common financial transaction tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

The proposed FTT has very broad, potentially extraterritorial, scope. It would apply to financial transactions where at least one party is a financial institution, and (a) one party is established in a participating Member State or (b) the financial instrument which is subject to the transaction is issued in a participating Member State. A financial institution may be, or be deemed to be, "established" in a Member State in a broad range of circumstances.

The Issuer is incorporated in Portugal and therefore financial institutions worldwide would be subject to the FTT when dealing in the Covered Bonds.

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

A person transacting with a financial institution which fails to account for FTT would be jointly and severally liable for that tax.

Furthermore, the Portuguese Government has been granted with an authorization from the Portuguese Parliament (both in the State Budget Law for 2013 and in the State Budget Law for 2014) to create the FTT. However, the authorization was granted before the proposal for a Directive for a common

financial transaction tax being approved and it is not expected that the FTT is created in Portugal before the above mentioned Directive is approved and then enters into force.

The FTT proposal remains subject to negotiation between the Member States, and may therefore be altered. Additional Member States may decide to participate. Prospective holders of the Covered Bonds are strongly advised to seek their own professional advice in relation to the FTT.

### **US Foreign Account Tax Compliance Withholding**

The Issuer and other non-US financial institutions through which payments on the Covered 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 Covered Bonds are made, to the payments made after 31<sup>st</sup> December 2014 in respect of (i) any Covered Bonds issued after 18<sup>th</sup> March 2012 and (ii) any Covered 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 Covered Bonds is made is not a participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Covered Bonds is not clear and additional legislation needs to be in force and published to complete the implementation process.

If an amount in respect of US withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered 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 Covered Bonds be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of Covered Bonds should consult their own tax advisers on how these rules may apply to payments they receive under the Covered Bonds.

Considering that Portugal might sign an Intergovernmental Agreement with the US, the above description of the withholding and reporting obligations of the Issuer might differ slightly, namely in what concerns the withholding tax of payments made to non FFI Covered Bond holders.

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

### **Change of law**

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

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

In relation to any issue of Bearer Covered Bonds (except for Covered Bonds cleared through Interbolsa, which for the avoidance of doubt will be in dematerialised book-entry form only and will not have integral multiples) which have denominations consisting of a minimum Specified Denomination and one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of such trading, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Bearer Covered Bond in respect of such holding (should Definitive Bearer Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to the minimum Specified Denomination.

If definitive Covered Bonds are issued, holders should be aware that definitive Covered Bonds which have a denomination which is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **The secondary market generally**

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

### **Market Price Risk**

The development of market prices of the Covered 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 Covered Bonds. An investor in the Covered Bonds is therefore exposed to the risk of an unfavourable development of market prices of its Covered Bonds which materialises if the investor sells the Covered Bonds prior to the final maturity of such Covered Bonds. If an investor decides to hold the Covered Bonds until final maturity the Covered Bonds will

be redeemed at the amount set out in the relevant Final Terms.

### **Interest Rate Risks**

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

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

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

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council, the “**CRA Regulation**”) 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) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

### **Other Risks**

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

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

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

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

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

## **RISKS SPECIFIC TO COVER POOL**

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

The Cover Pool may contain mortgage credits, other eligible assets, substitution assets and hedging contracts, in all cases subject to the limitations provided for in the Covered Bonds Law. At the date hereof, the Cover Pool contains mortgage credits and other eligible assets in accordance with the Covered Bonds Law. The Covered Bonds Law permits the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the composition of mortgage credits (and other permitted assets) comprised in the Cover Pool will change from time to time in accordance with the Covered Bonds Law – See *The Covered Bonds Law*.

### **Other Assets/Hedging Contracts**

The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Covered Bonds Law and the Bank of Portugal Regulations. The aggregate amount of other eligible assets cannot exceed 20 per cent. of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

### **Hedging Contracts**

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. At the date of this Base Prospectus it is intended that the Hedging Contracts, if any, will hedge the interest rate exposure with respect to the Mortgage Credits comprised in the Cover Pool as well as the interest rate exposure with respect to the Covered Bonds. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any exchange rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

### **Value of security over residential property**

The holders of Covered Bonds benefit from a special creditor privilege (*“privilégio creditório*

*especial*”) over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (See *Characteristics of the Cover Pool*). The security for a mortgage credit included in the Cover Pool consists of, among other things, a mortgage over a property granted in favour of the Issuer. The value of this property and accordingly, the level of recovery on the enforcement of the mortgage, may be affected by, among other things, a decline in the value of the relevant property and no assurance can be given that the values of the relevant properties will not decline in the future. A situation where a mortgage has to be enforced to pay the holders of Covered Bonds is, however, highly unlikely because the Covered Bonds Law establishes that any mortgage credits which are delinquent for over 90 days must be immediately substituted. See *The Covered Bonds Law*.

### **Amortisation of Mortgage Credits**

Mortgage credits which are included in the Cover Pool are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitution assets in the Cover Pool in order for the Issuer to comply with the financial matching requirements under the Covered Bonds Law.

### **No Due Diligence**

None of the Arranger or the Dealer(s) has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement.

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

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

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

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

#### *(a) Form and Transfer of the Covered Bonds*

Covered Bonds held through accounts of Affiliate Members of Interbolsa will be represented in dematerialised book-entry form (“*forma escritural*”) and may be registered Covered Bonds (“*nominativas*”) or bearer Covered Bonds (“*ao portador*”).

Covered Bonds will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by the Affiliate Members of Interbolsa on behalf of the relevant

holders. Such control accounts will reflect at all times the aggregate number of Covered Bonds held in the individual securities accounts opened by the clients of the Affiliate Members of Interbolsa (which may include Euroclear and Clearstream, Luxembourg). The transfer of Covered Bonds and their beneficial interests will be made through Interbolsa.

*(b) Payments on Covered Bonds*

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

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

*(c) Portuguese Tax Rules*

Pursuant to Decree-Law 193/2005, of 7<sup>th</sup> November 2005, as amended by Law 83/2013, of 9<sup>th</sup> December 2013, investment income paid to non-resident holders of Covered Bonds, and capital gains derived from a sale or other disposition of such Bonds, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with.

The documentation requirements are set as Appendix 1 and Appendix 2 hereto.

It should also be noted that, if interest and other types of investment income derived from the Covered 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<sup>th</sup> February 2004 (as amended by Ministerial Order no. 292/2011, of 8<sup>th</sup> November 2011) 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 Covered Bonds must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Covered Bonds.

## GENERAL DESCRIPTION OF THE PROGRAMME

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

This Base Prospectus 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 Covered 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<sup>st</sup> 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 Covered Bonds previously or simultaneously issued under the Programme, does not exceed €7,000,000,000 (subject to increase in accordance with the Programme Agreement (as defined below)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

- (a) the euro equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under Final Terms of the Covered Bonds) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding 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 Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described *under Final Terms of the Covered Bonds*) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

Covered Bonds issued under the Programme are expected on issue to be rated by at least one agency which has applied to be registered with the European Securities and Markets Authority under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) No. 462/2013 of the European Parliament and the Council, the “**CRA Regulation**”).

The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A rating addresses the likelihood that the holders of the Covered 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<sup>th</sup> June 2010 which has submitted an application for the registration in accordance with the CRA Regulation and such registration is not refused.

Each potential investor in the Covered 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 Covered Bonds, the merits and the risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement, (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio, (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payments is different from the currency in which such investor's financial activities are principal denominated, (iv) understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets, and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and others factors that may affect its investment and its ability to bear the applicable risks.

## RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of each of the Prospectus Directive, Article 26 of the Prospectus Regulation and Article 135-C of the Portuguese Securities Code, for the purpose of giving information with regard to the Issuer which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds.

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

For the purposes of Articles 149, 150 and 243 of the Portuguese Securities Code, the entities and persons referred to below accept responsibility for the information contained in this Base Prospectus, subject to the qualifications below. Each of such entities and persons hereby declare that, to the best of their knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of 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*) hereby declare that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

Deloitte & Associados – SROC, S.A., registered with the CMVM with number 231, with registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 - 6º 1050-094, 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<sup>st</sup> December 2012 and 31<sup>st</sup> December 2013 (see *General Information*). The Certification of Accounts and Auditor’s Reports referring to the above financial periods are incorporated by reference in this Covered 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 Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including those documents incorporated by reference.

No person has been authorised to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus in connection with the issue or sale of the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger (as defined in *Definitions*), the Common Representative (as defined under *General Description of the Programme*) or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon

which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus to be used in connection with any subsequent issue of Covered 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 Covered 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 Covered 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 Covered Bonds or an offer to sell or a solicitation of any offer to buy any Covered Bonds in any circumstance in which such offer or solicitation is not authorised or unlawful. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealer do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the 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 Covered Bonds outside the European Economic Area (“EEA”) or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or distributed or published in any jurisdiction and neither this Base Prospectus nor any advertisement or other offering material may be distributed in any jurisdiction, except under circumstances that would result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, 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 Covered Bonds, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus, 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 Covered Bonds. Each potential purchaser of Covered Bonds should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Covered Bonds should be based upon its own independent investigation as it deems necessary (namely of the financial condition, affairs and creditworthiness of the Issuer and the advantages and risks of investing in Covered Bonds). None of the Arranger, the Common Representative or the 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 Covered 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 Covered Bonds in any Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of a placement contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered 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 Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. The expression “**Prospectus Directive**” means Directive 2003/71/EC , of 4<sup>th</sup> November 2003 (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

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

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to “€”, “EUR” or “euro” are to the 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 Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998

on the introduction of the euro, as amended, 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 reports and audited consolidated financial statements of the Issuer in respect of the financial years ended 31<sup>st</sup> December 2012 and 31<sup>st</sup> December 2013, in each case together with the auditors' reports prepared in connection therewith;
- (b) the unaudited consolidated interim financial statements as at for the three month period ended 31<sup>st</sup> March 2014;
- (c) the articles of association in English of the Issuer (available at [www.bancobpi.pt](http://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, Porto and of the Common Representative at 55 Moorgate London EC2R 6PA, as well from the website of the Issuer, being [www.bancobpi.pt](http://www.bancobpi.pt).

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

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus to be used in connection with any subsequent issue of Covered Bonds.

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

<i>BANCO BPI</i>	
<b>Information Incorporated by Reference</b>	<b>Reference</b>
<b><u>Unaudited consolidated interim financial statements as at and for the three month period ended 31<sup>st</sup> March, 2014</u></b>	
Consolidated Balance Sheets	32
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<b><u>Annual Report 2013</u></b>	
Consolidated Balance Sheets	122
Consolidated Statements of Income	123
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Statements of changes in shareholders' equity	126-127
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Consolidated Balance Sheets	116
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Consolidated Statements of Comprehensive Income	118-119

Statements of changes in shareholders' equity	120-121
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## FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

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

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Arranger or the Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the 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 Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such interests.

Interbolsa, Euroclear and Clearstream, Luxembourg each hold securities for its participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa, Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships.

Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions and persons that directly or indirectly through other institutions clear through or maintain a custodial relationship with a participant of either system.

The address of Interbolsa is Avenida da Boavista, 3433, 4100-138 Porto, Portugal, the address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg.

Any reference herein to Interbolsa, Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons except in accordance with Regulation S (see *Subscription and Sale and Secondary Market Arrangements*). Accordingly, the

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

## **Covered Bonds held through Interbolsa**

### *General*

Covered Bonds must be held through Interbolsa when the relevant issue is to be admitted to trading in a Portuguese regulated market (in particular, Euronext Lisbon).

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 covered bonds held through Interbolsa.

In relation to each issue of securities, Interbolsa’s centralised system comprises, *inter alia*, (i) the issue account, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (ii) the control accounts opened by each of the financial intermediaries which participate in Interbolsa’s centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

Covered Bonds held through Interbolsa will be attributed an International Securities Identification Number (“**ISIN**”) code through the codification system of Interbolsa and will be accepted for clearing through LCH.Clearnet, S.A., as well as through the clearing systems operated by Euroclear and Clearstream, Luxembourg and settled by Interbolsa’s settlement system. Under the procedures of Interbolsa’s settlement system, physical settlement takes place on the third Business Day after the trade date and is provisional until the financial settlement that takes place at the Bank of Portugal on the Final Settlement Date.

### *Form of the Covered Bonds held through Interbolsa*

The Covered Bonds of each Series will be in book-entry form and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. The Covered Bonds may be registered Covered Bonds (“*nominativas*”) or bearer Covered Bonds (“*ao portador*”), as specified in the applicable Final Terms.

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with

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

Each person shown in the records of an Interbolsa Participant as being the holder of certain Covered Bonds is considered to be the owner of such Covered Bonds as recorded therein.

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

#### *Payment of principal and interest in respect of Covered Bonds held through Interbolsa*

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) 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 Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to Covered Bonds and all necessary information for that purpose. In particular, such notice must contain:

- (a) the identity of the Paying Agent responsible for the relevant payment; and
- (b) a statement of acceptance of such responsibility by the Paying Agent.

The Interbolsa Participant must 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 Covered Bonds and therefore credited in the securities accounts held by the holders of Covered Bonds with the Affiliate Members of Interbolsa. After the financial settlement has been processed, the Bank of Portugal must confirm that fact to Interbolsa.

#### *Transfer of Covered Bonds held through Interbolsa*

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes

to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa. Transfers of Covered Bonds represented by a Global Covered Bond within Interbolsa (if applicable) will be effected in accordance with the customary rules and operating procedures of Interbolsa applicable to book-entry securities.

### **Covered Bonds held through Euroclear and/or Clearstream, Luxembourg**

The Covered Bonds of each Series held through Euroclear and/or Clearstream, Luxembourg will be in bearer form, with or without interest coupons attached, or, except when Covered Bonds are issued in NGN form, in registered form, without interest coupons attached. The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons except in accordance with Regulation S (see *Subscription and Sale and Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

#### *Bearer Covered Bonds held through Euroclear and/or Clearstream, Luxembourg*

Each Tranche of Bearer Covered Bonds will be issued in the form of either a temporary bearer global covered bond (a “**Temporary Bearer Global Covered Bond**”) or a permanent bearer global covered bond (a “**Permanent Bearer Global Covered Bond**”) as indicated in the applicable Final Terms, which, in either case, will:

- (i) if the Global Covered Bonds are intended to be issued in NGN form, as stated in the applicable Final Terms, these should be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper (as defined below); and
- (ii) if the Global Covered Bonds are not intended to be issued in NGN form, be delivered, on or prior to the original issue date of such Tranche, to a common depository (the “**Common Depository**”) for Euroclear and/or Clearstream.

Whilst any Bearer Covered Bond is represented by a Temporary Bearer Global Covered Bond and held through Euroclear and/or Clearstream, Luxembourg, payment of principal, interest (if any) and any other amount payable in respect of such Covered Bond due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Covered Bond if the Temporary Bearer Covered Bond is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Covered Bond are not US persons or persons who have purchased for resale to any US person, as required by US Treasury regulations, have been received by Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On or after the date (the “**Exchange Date**”) which is 40 days after a Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) as described therein either for (i) interests in a Permanent Bearer Global Covered Bond of the same Series or (ii) for Definitive Covered Bonds in bearer form of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case, against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain US persons will not be able to receive Definitive Covered Bonds. The holder of a Temporary Bearer Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Covered Bond will be made, according to the applicable legal and regulatory requirement through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender, as the case may be, of the Permanent Bearer Global Covered Bond if the Temporary Bearer Covered Bond is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive securities in bearer form with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event.

For these purposes, Exchange Event means in the case of the Covered Bonds that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to holders of Covered Bonds in accordance with Condition 11 (*Notices*) of the Terms and Conditions of the Covered Bonds, as the case may be, if an Exchange Event occurs. In the event of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as the case may be) (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Covered Bonds once all of them shall have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Covered Bonds.

**“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”**

The sections referred to provide that United States holders of Covered Bonds, with certain exceptions, will not be entitled to deduct any loss on Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Covered Bonds, receipts or interest coupons.

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

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

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

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

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to the holders of the

Covered Bond in accordance with Condition 11 (*Notices*) of the Terms and Conditions if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as the case may be) (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) may give notice to the relevant registration requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice.

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

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

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

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

*Covered Bonds issued in the NGN form*

On 13<sup>th</sup> June 2006 the European Central Bank (the “**ECB**”) announced that Covered Bonds in NGN form are in compliance with the “Standards for the use of EU securities settlement systems in ESCB credit operations” of the central banking system for the Euro (the “**Eurosystem**”), provided that certain other criteria are fulfilled. At the same time, the ECB also announced that arrangements for Covered Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30<sup>th</sup> June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31<sup>st</sup> December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

If the Covered Bonds are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and will be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear and/or Clearstream (the “**Common Safekeeper**”). Depositing the Covered Bonds with the Common Safekeeper does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all

times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

If the Covered Bond is a NGN, the Issuer shall procure that details of each payment in respect thereof are entered pro rata in the records of Euroclear and/or Clearstream and, in the case of principal payments, the nominal amount of the Covered Bonds recorded in the records of Euroclear and/or Clearstream will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

Where the Covered Bond is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Covered Bonds, as the case may be, in addition to the circumstances set out above are entered in the records of Euroclear and/or Clearstream and upon any such entry being made, the nominal amount of the Covered Bonds represented by such Global Covered Bond shall be adjusted accordingly.



## FINAL TERMS OF THE COVERED BONDS

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

Final Terms dated [●]

### Banco BPI, S.A.

Issue of [*Aggregate Nominal Amount of Tranche*] [[●] per cent./Floating Rate/Zero Coupon] Covered Bonds due [●]  
under the €7,000,000,000 Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW NO. 59/2006, OF 20<sup>TH</sup> MARCH 2006 (AS AMENDED, THE “**COVERED BONDS LAW**”). THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

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

#### PART A – CONTRACTUAL TERMS

*Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the “**Terms and Conditions**”) set forth in the Base Prospectus dated [●] [●] 2014 [, 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<sup>th</sup> November 2003, as amended (the “**Prospectus Directive**”), Commission Regulation (EC) no. 809/2004 (the “**Prospectus Regulation**”) and Decree-Law no. 486/99, of 13<sup>th</sup> November 1999, as amended (the “**Portuguese Securities Code**”). The Terms and Conditions are incorporated by reference into or endorsed upon (as applicable) in each Covered Bond described herein, as applicable. This document constitutes the Final Terms of the Covered 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 no. 2003/71/EC, of the European Parliament and of the Council of 4<sup>th</sup> November 2003, as amended and must be read in conjunction with such Base Prospectus [, as supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus[, as supplemented]. The Base Prospectus[, as supplemented,] is available for viewing at Banco BPI, S.A., Rua Tenente Valadim, no. 284, Porto, [www.bancobpi.pt](http://www.bancobpi.pt) and [www.cmvm.pt](http://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 Covered Bonds (the “**Terms and Conditions**”) set forth in the Base Prospectus dated [●] [●] 2014[, as*

supplemented on [●]]. The Terms and Conditions are incorporated by reference into or endorsed upon (as applicable) in each Covered Bond described herein, as applicable. This document constitutes the Final Terms of the Covered 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 Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [●] [●] 2014[, as supplemented on [●]]. The Base Prospectus [as supplemented] is available for viewing at Banco BPI, S.A., Rua Tenente Valadim, no. 284, Porto, [www.bancobpi.pt](http://www.bancobpi.pt) and [www.cmvm.pt](http://www.cmvm.pt). and copies may be obtained from the same address.

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

1. (i) Series Number: [●]
- (ii) [Tranche Number: [●]
- (If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.)*
2. Specified Currency or Currencies: [●]
3. (i) Aggregate Nominal Amount of Covered Bonds:
  - A. Series: [●]
  - B. Tranche: [●]
- (ii) Specify whether Covered Bonds to be admitted to trading [Yes (if so, specify each Series/Tranche)/No]
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)]
5. Specified Denominations: [●]
- (N.B. Where Bearer Covered Bonds with multiple denominations above €100,000 or equivalent are being used the following language should be used:  
"€[100,000] and integral multiples of €[1,000] in excess thereof up to and including €[199,000]. No Covered Bonds in*

*definitive form will be issued with a denomination above €[199,000]"*)

6. (i) Issue Date: [●]  
(ii) [Interest Commencement Date (if different from the Issue Date): [●]]
7. Maturity Date: [*specify date or (for Floating Rate Covered 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 Covered 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 Covered 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 Covered Bonds: The Covered Bonds will be direct, unconditional and senior obligations of the Issuer and rank equally with all other mortgage covered bonds issued or to be issued by the Issuer. The Covered Bonds will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law.
- (ii) [Date [Board] approval for issuance of Covered Bonds obtained]: [●]
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 Covered Bonds Provisions
- To Maturity Date: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
  - From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable] (If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph)  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]*
- (i) Rate [(s)] of Interest:
- To Maturity Date: [●] per cent. per annum [payable [annually/semi-annually/quarterly] in 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 Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]*
- (ii) Interest Payment Date(s):
- To Maturity Date: [[●] in each year up to and including the Maturity Date / [specify other]]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [[●] in each month up to and including the Extended Maturity Date]/[specify other]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]
  
- (iii) Fixed Coupon Amount [(s)]:
  - To Maturity Date: [[●] per [●] in nominal amount]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[●] per [●] in nominal amount]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]
  
- (iv) Broken Amount:
  - To Maturity Date: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]
  
- (v) Day Count Fraction
  - To Maturity Date: [30/360 or Actual/Actual (ICMA) or specify other]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360 or Actual/Actual (ICMA) or specify other]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]
  
- (vi) Determination Date(s):
  - To Maturity Date: [Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [None/give details]
17. Floating Rate Covered Bonds Provisions
- To Maturity Date: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph.)
  - From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph.)  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (i) Specified Period(s)/Specified Interest Payment Dates:
- To Maturity Date: [●]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/[●]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (ii) Business Day Convention:
- To Maturity Date: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)] [State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]

- (iii) Additional Business Centre(s):
- To Maturity Date: [●]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:
- To Maturity Date: [Screen Rate Determination/ISDA Determination/other (give details)]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [Screen Rate Determination/ISDA Determination/other (give details)]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Calculation Agent):
- To Maturity Date: [●]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●]  
[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (vi) Screen Rate Determination:
- a) To Maturity Date:
- Reference Rate: [●]
  - 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)

<p>b) From Maturity Date up to Extended Maturity Date:</p> <ul style="list-style-type: none"> <li>• Reference Rate:</li> <li>• Interest Determination Date:</li> <li>• Relevant Screen Page:</li> </ul>	<p>[Not Applicable]</p> <p><i>[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]</i></p> <p>[●]</p> <p>[●] <i>(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)</i></p> <p>[●] <i>(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)</i></p>
<p>(vii) ISDA Determination:</p>	
<p>a) To Maturity Date:</p> <ul style="list-style-type: none"> <li>• Floating Rate Option:</li> <li>• Designated Maturity:</li> <li>• Reset Date:</li> </ul>	<p>[●]</p> <p>[●]</p> <p>[●]</p>
<p>b) From Maturity Date up to Extended Maturity Date:</p> <ul style="list-style-type: none"> <li>• Floating Rate Option:</li> <li>• Designated Maturity:</li> <li>• Reset Date:</li> </ul>	<p>[Not Applicable]</p> <p><i>[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]</i></p> <p>[●]</p> <p>[●]</p> <p>[●]</p>
<p>(viii) Margin(s):</p>	
<ul style="list-style-type: none"> <li>• To Maturity Date:</li> <li>• From Maturity Date up to Extended Maturity Date:</li> </ul>	<p>[+/-] [●] per cent. Per annum</p> <p>[Not Applicable]/ [+/-] [●] per cent. per annum <i>[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]</i></p>
<p>(ix) Minimum Rate of Interest:</p>	
<ul style="list-style-type: none"> <li>• To Maturity Date:</li> <li>• From Maturity Date up to Extended Maturity Date:</li> </ul>	<p>[●] per cent. per annum</p> <p>[Not Applicable]/ [●] per cent. per annum <i>[State “Not Applicable” unless Extended Maturity Date applies and the Covered</i></p>



*Bonds are Floating Rate Covered Bonds after the Maturity Date.]*

- (x) Maximum Rate of Interest:
- To Maturity Date [●] per cent. per annum
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●] per cent. per annum  
*[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
- (xi) Day Count Fraction:
- To Maturity Date [Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]  
(see Condition 4 (*Interest*) for alternatives)
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/  
[Actual/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 Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
- (xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:
- To Maturity Date [●]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●]  
*[State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*

18. Zero Coupon Covered Bonds Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Accrual Yield: [●] per cent. per annum
  - (ii) Reference Price [●]
  - (iii) Any other formula/basis of determining amount payable: [●]
  - (iv) Day Count Fraction in relation to late payment: [Condition 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 Covered Bond and method, if any, of calculation of such amount(s): [●] per Covered Bond of [●] Specified Denomination
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [●]
    - (b) Maximum Redemption Amount: [●]
  - (iv) Notice period (if other than as set out in the Terms and Conditions): [●] *(NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
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 Covered Bond and method, if any, of calculation of such amount(s): [●] per Covered Bond of [●] Specified Denomination
  - (iii) Notice period: [●] *(NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries,*

*for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

- |     |   |   |
|-----|---|---|
| 21. | Final Redemption Amount of each Covered Bond  | [[●] per Covered Bond of [●] Specified Denomination/Other/See Appendix] |
| 22. | [Early Redemption Amount of each Covered Bond payable on an event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6 ( <i>Redemption and Purchase</i> ))] | [Applicable/Not Applicable]   |

### **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- |     |   |   |
|-----|---|---|
| 23. | (a) Form of Covered Bonds:  | [Bearer Covered Bonds/Exchangeable Bearer Covered Bonds/Registered Covered Bonds] [ <i>Delete as appropriate</i> ]<br><br>[Temporary Global Covered Bond/Certificate exchangeable for a permanent Global Covered Bond/Certificate which is exchangeable for Definitive Covered Bonds/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Covered Bond/Certificate] [Temporary Global Covered Bond/Certificate exchangeable for Definitive Covered Bonds/Certificates on [●] days' notice] [Permanent Global Covered Bond/Certificate exchangeable for Definitive Covered Bonds/ Certificates on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond/Certificate] |
|     | (b) New Global Notes:   | [Yes/No]  |
| 24. | Additional Financial Centre(s) or other special provisions relating to Payment Dates:   | [Not Applicable/ <i>give details</i> ]<br><i>(Note that this item relates to the place of payment and not Interest Period end dates to which item 17 (iii) relates)</i>   |
| 25. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):   | [Yes/No. <i>If yes, give details</i> ]  |
| 26. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit | [Not Applicable/ <i>give details</i> ]  |

- the Covered Bonds and interest due on late payment:
27. Details relating to Instalment Covered Bonds: [Not Applicable/give details]  
 (i) Instalment Amount(s): [Not Applicable/give details]  
 (ii) Instalment Date(s):
28. Redenomination applicable: [Applicable/Not Applicable] (*if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*)
29. 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 Covered Bonds must, inter alia, deliver certain tax certifications. See Taxation section.]*

## DISTRIBUTION

30. (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: [●]
31. If non-syndicated, name of relevant Dealer: [Not Applicable/give name and date of relevant agreement]
32. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
33. Additional selling restrictions: [Not Applicable/give details ]

## LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list the issue of the Covered Bonds described herein pursuant to the €7,000,000,000 Covered 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 Covered Bonds to be admitted to trading on [Euronext Lisbon by Euronext Lisbon/other (specify)/None] with effect from [●].] [Not Applicable.]  
*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
- (iii) Estimate of total expenses related to admission to trading [●]

### 2. Ratings

- Ratings: The Covered Bonds to be issued have been rated:  
[S & P: [●]]  
[Moody's: [●]]  
[Fitch: [●]]  
[[●] (specify): [●]]  
*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*  
*[[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. Notification**

[Not applicable.] or [The *Comissão do Mercado de Valores Mobiliários* [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

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

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

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

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

- |                                   |   |
|-----------------------------------|---|
| (i) Reasons for the offer         | [●]<br><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     | [●]<br><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: | [●]   |

## 6. YIELD - Fixed Rate Covered Bonds only

- |                      |  |
|----------------------|--|
| Indication of yield: | [●]<br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. |
|----------------------|--|

## 7. Operational Information

- |   |  |
|---|--|
| ISIN Code:  | [●]  |
| Common Code:  | [●]  |
| Any clearing system(s) other than Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the <i>Central de Valores Mobiliários</i> , Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking. société anonyme and the relevant identification number(s): | [Not Applicable/give <i>name(s)</i> and <i>number(s)</i> ] |
| 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 Covered Bonds are intended upon issue to be (i) deposited with one of Euroclear and/or Clearstream Luxembourg as common safekeeper or (ii) registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected in which case, if intended upon issue to be deposited with one of Euroclear and/or Clearstream Luxembourg as common safekeeper, the Covered Bonds must be issued in NGN form]

Stabilization Operation

[Not Applicable]

[Applicable]

[If applicable;

Stabilising Manager;

Period;

Other information]



## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into, or endorsed upon, each Covered Bond, including any Global Covered Bond (as defined below) and each Definitive Covered Bond (if applicable), in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds 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, or attached to, each Covered Bond. Reference should be made to “Final Terms of the Covered Bonds” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

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

This Covered Bond is one of a Series (as defined below) of mortgage covered bonds issued by Banco BPI, S.A. (the “**Issuer**”) in accordance with the procedures set out in the Agency and Payments Procedures (as defined below).

Depending on the Clearing System through which the Covered Bonds are held (as specified in the applicable Final Terms), references herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean:

- (i) whilst the Covered Bonds are held through Interbolsa, the book-entries corresponding to the units of the lowest Specified Denomination in the Specified Currency;
- (ii) in relation to any Covered Bonds represented by a global Covered Bond (a “**Global Covered Bond**”), units of the lowest Specified Denomination in the Specified Currency;
- (iii) any Global Covered Bond;
- (iv) any Definitive Covered Bonds in bearer form (“**Definitive Bearer Covered Bond**”) issued in exchange for a Global Covered Bond in bearer form; and
- (v) any Definitive Covered Bond in registered form (“**Definitive Registered Covered Bond**”), whether or not in exchange for a Global Covered Bond in registered form.

The Covered Bonds have the benefit of a set of agency 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 30<sup>th</sup> April 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, agent bank and/or registrar appointed by the Issuer.

Interest bearing Definitive Bearer Covered Bonds have interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talon**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Covered Bonds repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds and Global Covered Bonds do not have Coupons, Receipts or Talons attached on issue.

Any reference to “**holders of Covered Bonds**” shall mean, in the case of Covered Bonds held through Interbolsa, the person or entity registered as such in the relevant securities account. In the case of Bearer Covered Bonds, “**holders of Covered Bonds**” shall mean the holders of such Covered Bonds and, in the case of Registered Covered Bonds, the persons in whose name the Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of Receipts. Any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

Copies of the Agency and Payments Procedures are available for inspection during normal business hours at the specified office of the Paying Agent and the Registrar (such Paying Agent and the Registrar being jointly referred to as the “**Agents**”). Copies of the applicable Final Terms are obtainable at the CMVM website – [www.cmvm.pt](http://www.cmvm.pt) – and during normal business hours at the specified office of each of the Agents save that, if these Covered Bonds are unlisted, the applicable Final Terms will only be obtainable at the specified office of each of the Agents by a holder holding one or more unlisted Covered Bonds and such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency and Payments Procedures and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency and Payments Procedures.

Words and expressions defined in the Agency and Payments Procedures or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency and Payments Procedures and the applicable Final Terms, the applicable Final Terms will prevail.

As used herein, **outstanding** means in relation to the Covered Bonds all the Covered Bonds issued other than:

- (a) those Covered Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;
- (b) those Covered Bonds in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Agent in the manner provided in the Agency and Payments Procedures (and, where appropriate, notice to that effect has been given to the Covered Bonds holders in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Covered Bonds and/or Receipts and/or Coupons as applicable;
- (c) those Covered Bonds which have been purchased and cancelled under these Terms and Conditions;
- (d) those Covered Bonds which have become prescribed under these Terms and Conditions;
- (e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to these Terms and Conditions;
- (f) (for the purpose only of ascertaining the principal amount of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued under these Terms and Conditions;
- (g) (if applicable) a Temporary Global Covered Bond to the extent that it has been duly exchanged for the relevant Permanent Global Covered Bond and a Permanent Global Covered Bond to the extent that it has been exchanged for the Definitive Bearer Covered Bond in each case under its provisions; and
- (h) (if applicable) any Registered Global Covered Bond to the extent that it has been exchanged for Definitive Registered Covered Bonds and any Definitive Registered Covered Bond to the extent that it has been exchanged for an interest in a Registered Global Covered Bond.

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

The Covered Bonds are in bearer or, except when issued in NGN, in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

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

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or proven error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of Covered Bonds for all purposes (subject to Condition 2 (*Transfers of Covered Bonds*)) other than with respect to the payment of principal or interest on such nominal amount of Covered Bonds, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

Interest-bearing Definitive Bearer Covered Bonds have (unless otherwise indicated in the applicable Final Terms) Coupons.

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

Terms applicable to other types and structures of Covered Bonds that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out in the applicable Final Terms.

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

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

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

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency and Payments Procedures. The Issuer, the Paying Agent and the Common Representative will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of

any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

## **2. TRANSFERS OF COVERED BONDS**

The transferability of the Covered Bonds is not restricted.

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bond. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and with the applicable procedures of Interbolsa. Transfers of Covered Bonds represented by a Global Covered Bond within Interbolsa (if applicable) will be effected in accordance with the customary rules and operating procedures of Interbolsa applicable to book-entry securities.

Whilst the Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg, interests in a Global Covered Bond may, subject to compliance with all applicable restrictions and requirements, be transferred to a person who wishes to hold such interest in a Global Covered Bond. No beneficial owner of an interest in a Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Transfers of any interests in Covered Bonds represented by a Global Covered Bond within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Any reference herein to Interbolsa, Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. The holders of Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **3. STATUS OF THE COVERED BONDS**

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

## **4. INTEREST**

### **4.1 Interest on Fixed Rate Covered Bonds**

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

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

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

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

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

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

- (ii) “**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
- (iii) “**Principal Amount Outstanding**” means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof.
- (iv) “**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

#### **4.2 Interest on Floating Rate Covered Bonds**

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

Each Floating Rate Covered Bond (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 Covered Bonds*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

- (i) *ISDA Determination for Floating Rate Covered Bonds:* Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph, “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the “**ISDA Definitions**”) and under which:
  1. the Floating Rate Option is as specified in the applicable Final Terms;
  2. the Designated Maturity is the period specified in the applicable Final Terms; and



3. the relevant Reset Date is either (A) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the Eurozone 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 Covered Bonds*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:
  1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
  2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) or, as applicable, the relevant Calculation Agent, of such offered quotations.
- (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.

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

*(F) Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents, any Calculation Agent, the Common Representative and all holders of Covered Bonds and (in the absence of wilful default or bad faith) no liability to the Issuer, any Calculation Agent, the holders of Covered Bonds shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### **4.3 Accrual of interest**

Subject as provided in Condition 4.4, interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until (i) the date on which all amounts due in respect of such Covered Bond have been paid; and (ii) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent or the Registrar, as the case may be, and notice to that effect has been given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

#### **4.4 Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date**

(A) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

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

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4.4 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

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

## **5. PAYMENTS**

### **5.1 Method of payment**

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5 (*Payments*), means the United States of America including the 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 Clearing System regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

### **5.2 Payments in relation to Covered Bonds held through Interbolsa**

Payments of principal and interest in respect of Covered Bonds held through Interbolsa 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.

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the 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 Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

### **5.3 Presentation of Definitive Bearer Covered Bonds and Coupons**

(A) Payments of principal in respect of Definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Covered Bonds, and payments of interest in respect of Definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

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

(C) Fixed Rate Covered Bonds in definitive bearer form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 20 years after the Relevant Date (as defined in Condition 8 (*Prescription*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)). Upon the date on which any Fixed Rate Covered Bond in definitive bearer form



becomes due and repayable, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

(D) Upon the date on which any Floating Rate Covered Bond in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

(E) If the due date for redemption of any Definitive Bearer Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Covered Bond.

#### **5.4 Payments in respect of Bearer Global Covered Bonds held through Euroclear and/or Clearstream, Luxembourg**

Except if otherwise specified in the applicable Final terms, payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond in bearer form held through Euroclear or Clearstream, Luxembourg (as the case may be) will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Covered Bond in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

#### **5.5 Payments in respect of Registered Covered Bonds held through Euroclear and/or Clearstream, Luxembourg**

(A) Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or the Paying Agent. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the Register) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Covered Bonds held by a holder is less than €250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, Designated Account means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency

other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

(B) Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the Record Date) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

(C) Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

(D) None of the Issuer or the Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **5.6 Payment Day**

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 8 (*Prescription*)) is:

- (i) for Covered Bonds held through Interbolsa, a day on which the TARGET System is open;
- (ii) for Covered Bonds other than Covered Bonds held through Interbolsa, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation; or

- (B) any Additional Financial Centre specified in the applicable Final Terms; and (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

## **5.7 Interpretation of principal**

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

- (i) the Final Redemption Amount of the Covered Bonds;
- (ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (iii) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms); and
- (iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

## **6. REDEMPTION AND PURCHASE**

### **6.1 Final redemption**

Subject to Condition 6.8, unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date.

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

If Issuer Call Option is specified in the applicable Final Terms, the Issuer may, having given (unless otherwise specified, in the applicable Final Terms) not less than 30 nor more than 60 days' notice to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Covered Bonds (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered

Bonds, either (whilst the Covered Bonds are held through Interbolsa) the nominal amount of all outstanding Covered Bonds will be redeemed proportionally or (whilst the Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg) the Covered Bonds to be redeemed (the “**Redeemed Covered Bonds**”) will be selected individually in accordance with the rules of the relevant Clearing Systems not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the Selection Date).

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

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 nor more than 60 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent (in the case of Covered Bonds held through Interbolsa and in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Covered Bonds, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Covered Bonds so surrendered is to be redeemed, an address to which a new Registered Covered Bond in respect of the balance of such Registered Covered Bonds is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfers of Covered Bonds*). If this Covered Bond is in definitive form, the Put Notice must be accompanied by this Covered Bond or evidence satisfactory to the Paying Agent concerned that this Covered Bond will, following delivery of the Put Notice, be held to its order or under its control. If this Covered Bond is represented by a Global Covered Bond or is in definitive form and held through Euroclear or Clearstream, Luxembourg, as the case may be, to exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, as applicable (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Covered Bond represented by a Covered Bond, at the same time present or procure the presentation of the relevant Global Covered Bond to the Agent for notation accordingly. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. If the Covered Bonds are held through Interbolsa, the right to require redemption will be exercised directly against the Issuer, through the Paying Agent.

#### **6.4 Instalments**

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

#### **6.5 Purchases**

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Definitive Covered Bonds, all unmatured Receipts, Coupons or Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Covered Bonds may be held, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or Registrar for cancellation.

#### **6.6 Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled (together – if applicable - with all unmatured Coupons, Receipts and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.5 above (together with all unmatured Coupons, Receipts and Talons cancelled therewith) shall be cancelled by Interbolsa or the Agent (as applicable) and cannot be held, reissued or resold.

#### **6.7 Late payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.8 does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to paragraph 6.1, 6.2 or 6.3 above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

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

where:

**RP** means the Reference Price; and

**AY** means the Accrual Yield expressed as a decimal; and

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

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds either in accordance with Condition 11 (*Notices*) or individually.

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

(A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such Extended Maturity provisions.

(B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the holders of Covered Bonds (in accordance with Condition 11(*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

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

(D) Any extension of the maturity of Covered Bonds under this Condition 6.8 shall be irrevocable. Where this Condition 6.8 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.8 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

(E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.8, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4.

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

(G) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.8, subject to otherwise provided for in the applicable Final Terms,

for so long as any of those Covered Bonds remains in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

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

## **7. TAXATION**

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

All payments of principal and interest in respect of the Covered Bonds (and Coupons, if applicable) shall be made free and clear of, and without withholding or deduction for, any Taxes (for which purpose investors are required in any case to comply with their obligations detailed under the *Taxation* section) unless the Issuer or any Paying Agent (as the case may be) is required by law to make any such payment subject to any such withholding or deduction. In that event, the Issuer or any Paying Agent (as the case may be) shall be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted.

### **7.2 No payment of additional amounts**

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1 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 Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and 5 years (in the case of interest) in each case from the Relevant Date 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 Covered Bonds in accordance with Condition 11 (*Notices*).

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

### **9.1 Insolvency Event**

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

If an Insolvency Event in respect of the Issuer occurs, the holders of Covered Bonds enjoy, under the Covered Bonds Law, a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, the Common Representative and the Hedge Counterparties also benefit from this special creditor privilege, 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<sup>th</sup> October, as amended, Decree-Law no. 298/92, of 31<sup>st</sup> December, as amended, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies approved by Decree-Law no. 53/2004, of 18<sup>th</sup> March, as amended). Investors should see the *Insolvency of the Issuer* section.

### **9.2 Enforcement**

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

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

(C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme 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, PAYING AGENTS AND REGISTRAR**

(A) The names of the Agent, the Paying Agent and the initial Registrar (only applicable whilst the Registered Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg) and their initial specified offices are set out below. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.

(B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

- (i) there will at all times be an Agent and, in the case of Registered Covered Bonds held through Euroclear and/or Clearstream, Luxembourg, a Registrar;
- (ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe;
- (iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority;
- (iv) the Issuer will ensure that it maintains a Paying Agent in a Member State of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive or any law implementing or complying with, or introduced in order to conform to such Directive.

## **11. NOTICES**

Notices to the holders of Covered Bonds shall, in respect of the Covered Bonds listed on *Euronext* Lisbon, be published on the *Euronext* Lisbon bulletin and on the CMVM's information system ([www.cmvm.pt](http://www.cmvm.pt)). Furthermore, any such notice shall be disclosed by any further means required to allow a fast access by all holders of Covered 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.

Notices to holders of the Covered Bonds deposited with a common depository for Euroclear and Clearstream, Luxembourg may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any such case, such notices shall be deemed to have been given to the holders of the Covered Bonds on the date of delivery to Euroclear and Clearstream, Luxembourg and, in addition, for so long as Covered Bonds are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily

newspaper of general circulation in the place or places required by that stock exchange (or any other relevant authority).

## 12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Commercial Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

(B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote. For the sake of clarity, in relation to any Covered Bonds represented by a Global Covered Bond, each unit of the lowest Specified Denomination in the Specified Currency shall grant one vote.

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

For the purposes of these Terms and Conditions, a “**Reserved Matter**” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) 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 Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

(E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default and Enforcement*) or to direct the Common Representative to take any enforcement action (each a “**Programme Resolution**”) shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

(F) Any such meeting to consider a Programme Resolution may be convened by the Issuer or the Common Representative or by holders of Covered Bonds of any Series.

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

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

### **13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER**

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

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

### **14. REPLACEMENT OF COVERED BONDS, COUPONS AND TALONS**

Should any Covered Bond, Receipt, Coupon or Talon (if applicable) be lost, stolen, mutilated, defaced or destroyed, it may be replaced, in accordance with Article 51 of the Portuguese Securities Code, at the specified office of the financial intermediary where such Covered Bond, Receipt, Coupon or Talon (if applicable) is registered or deposited (as the case may be) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

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

### **15.1 Maintenance of overcollateralisation**

For so long as the Covered Bonds are outstanding, and regardless of the time of issue of the Covered Bonds, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulations) of the Cover Pool maintained by the Issuer shall at all times be a minimum of 105.26 per cent. of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the “**Overcollateralisation Percentage**”), provided that:

- (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and
- (ii) (A) so long as the Covered Bonds are rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 15, unless, always provided that (i) above is satisfied, Moody’s has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody’s being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 15.

### **15.2 Issuer Covenants**

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

(A) *Loan-to-Value*: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80 per cent. of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60 per cent. of the Current Property Value, in case of a Property intended primarily for commercial purposes;

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

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

(D) *Interest Cover*: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;

(E) *Valuations*: all the required valuations of Covered Bonds, Mortgage Credits, Hedging Contracts, Other Assets and Properties will be made in compliance with the requirements of the Covered Bonds Law and the Bank of Portugal Regulations (in particular Regulation 5/2006 and Regulation 6/2006);

(F) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of Condition 15 in accordance with the Covered Bonds Law and in the terms set forth in the Cover Pool Monitor Agreement;

(G) *Mortgage Credits*: the Mortgage Credits included in the Cover Pool are not Non-Performing Mortgage Credits; and

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

## 16. FURTHER ISSUES

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

## 17. GOVERNING LAW

The Common Representative Appointment Agreement, the Agency and Payments Procedures, the Covered 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) dated 30<sup>th</sup> April 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, agent bank and/or registrar appointed by the Issuer, as amended.

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

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

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

“**Base Prospectus**” means the base prospectus dated 4 July 2014, prepared in connection with the Programme.

“**Bearer Covered Bonds**” means any Covered Bonds in bearer form issued (whether or not in global form).

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

“**Clearing Systems**” means Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg and/or, in relation to any Series of Covered Bonds, any other clearing system depositary as specified in the relevant Final Terms, and, each, a “**Clearing System**”.

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

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

“**Common Representative**” means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 55 Moorgate, London, EC2R 6PA, United Kingdom.

“**Common Representative Appointment Agreement**” means the agreement dated 30<sup>th</sup> April 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.

“**Couponholders**” means the persons who for the time being are holders of the Coupons.

“**Coupons**” means the interest coupons related to the Definitive Bearer Covered Bonds and for the time being outstanding or, as the context may require, a specific number of such coupons.

“**Cover Pool**” means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

“**Cover Pool Monitor**” means Deloitte & Associados – SROC, S.A., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6<sup>th</sup>, 1050-094, Lisbon.

“**Cover Pool Monitor Agreement**” means the agreement dated 30<sup>th</sup> April 2008 entered into between the Issuer and the Cover Pool Monitor, as amended.

“**Covered Bond**” means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and “**Covered Bonds**” shall be construed accordingly.

“**Covered Bonds Law**” means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law no. 59/2006, of 20<sup>th</sup> March 2006, as amended.

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

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

“**Definitive Covered Bond**” means any definitive Covered Bond, in bearer or registered form, issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

“**Definitive Bearer Covered Bond**” means any definitive Covered Bond in bearer form issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

“**Definitive Registered Covered Bond**” means any definitive Covered Bond in registered form issued whether or not in exchange for a Global Covered Bond in registered form held through Euroclear and/or Clearstream, Luxembourg.

“**EU**” means the European Union.

“**Euro**”, “**€**” or “**euro**” means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

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

“**Euronext Lisbon**” means the regulated market of Euronext Lisbon by Euronext Lisbon.

“**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 Covered Bonds.

“**Fitch**” means Fitch Ratings Limited.

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

“**Global Covered Bond**” means any global covered 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 Covered Bonds Law.

“**Hedging Contracts**” means the hedging contracts entered into by the Issuer in accordance with the Covered 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 (“*Instrução*”) no. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

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

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

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

“**Loan to Value**” means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Value of the Property securing such Mortgage Credit.

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

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

“**Mortgage**” means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

“**Mortgage Credit**” means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

- (a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;
- (b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;
- (c) it is a receivable secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.



“**NGN**” means any bearer Covered Bond to be issued in new global note form.

“**Non-Performing Mortgage Credits**” means, with respect to a Mortgage Credit, that such Mortgage Credit:

- (a) is in the course of being foreclosed or otherwise enforced; or
- (b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

“**Other Assets**” means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

- (a) deposits with the Bank of Portugal, in cash or 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;

The Issuer undertakes that on any Business Day the Other Assets include assets specified under (a) above corresponding to “AAA” or equivalent rated sovereign bonds from a EU Member-State, or Italian Sovereign Bonds, the United States, Japan and/or Canada or other assets specified under (b) above with credit institutions having a minimum rating at least equal to “A” or equivalent, in an amount (as calculated by the Issuer on such Business Day) at least equal to the interest payments due by the Issuer under the outstanding Covered Bonds during the next 90 days.

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

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

“**Overcollateralisation Percentage**” means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) (A) so long as the Covered Bonds are rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15, unless, always provided that (i) above is satisfied, Moody’s has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody’s being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15.

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

**“Permanent Bearer Global Covered Bond”** means any Covered Bond issued in the form of a permanent bearer global covered bond.

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

**“Portuguese Securities Code”** means Decree-Law no. 486/99, of 13<sup>th</sup> November 1999, as amended.

**“Programme”** means the €7,000,000,000 covered bonds programme established on 30<sup>th</sup> April 2008 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

**“Programme Agreement”** means the agreement dated 30<sup>th</sup> April 2008 entered into between the Issuer and the Dealer, as amended.

**“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 Covered Bonds pursuant to Condition 9 (*Events of Default and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

**“Property”** means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and **“Properties”** means all of them.

**“Property Valuation”** means, in relation to any Property:

- (a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and
- (b) the amount determined by resorting to the use of adequate and recognised indexes or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

**“Rating Agencies”** means Moody's, S&P and Fitch and any other rating agency which has applied to be registered with the European Securities and Markets Authority under Regulation (EC) no. 1060/2009 of the European Parliament and of the Council of 16<sup>th</sup> September 2009 on credit rating agencies, as amended by Regulation (EU) no. 513/2011 of the European Parliament and of the Council of 11<sup>th</sup> May 2011, as applicable.

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

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

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

**“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 Covered Bonds Law and the Bank of Portugal Regulations;

**“Registered Covered Bond”** means any covered bond in registered form.

**“Regulation 5/2006”** means the regulatory notice (“*Aviso*”) no. 5/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**“Regulation 6/2006”** means the regulatory notice (“*Aviso*”) no. 6/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**“Regulation 7/2006”** means the regulatory notice (“*Aviso*”) no. 7/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

**“Regulation 8/2006”** means the regulatory notice (“*Aviso*”) no. 8/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

**“Regulation S”** means Regulation S under the Securities Act.

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

**“Reserved Matter”** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) 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 Covered Bonds and approved in accordance with the applicable provisions.

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

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

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

**“S&P”** Standard & Poor’s Credit Market Services Europe Limited.

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

**“Talon”** and **“Talons”** means the talons for further Receipts and further Coupons attached to the Definitive Bearer Covered Bonds on issue.

**“TARGET Day”** means any day on which the TARGET System is open.

**“TARGET System”** means the Trans-European Automated Real-time Gross Settlement Express Transfer System (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.

**“Temporary Bearer Global Covered Bond”** means any Covered Bond issued in the form of a temporary bearer global covered bond.

**“Terms and Conditions”** means in relation to the Covered Bonds, the terms and conditions to be endorsed on or applied to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

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

**“Treaty”** means the treaty establishing the European Communities, as amended by the Treaty on European Union, as amended.

**“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 Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;
- (b) in relation to any Other Assets:
  - (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;
  - (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

## CHARACTERISTICS OF THE COVER POOL

### INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

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

### ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. The Cover Pool contains mortgage credit assets, substitution assets and other eligible assets (including hedging contracts) subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the “**Register**”) in relation to the Cover Pool for the purposes of the Covered Bonds Law. The Issuer plans to issue from time to time further Covered Bonds and will include in the relevant Cover Pool, additional mortgage credit assets or substitution assets as security for those Covered Bonds in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, take all possible steps to prevent the contravention from continuing or being repeated.

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

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

#### *Mortgage Credits Eligibility Criteria*

- (a) unmatured financial receivables, which are neither subject to encumbrances or possession orders and which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;
- (b) mortgage credits secured by junior mortgages provided all mortgage credits secured by senior mortgages are held by the Issuer and allocated to the Cover Pool;
- (c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, with a mortgage counter guarantee meeting the above criteria.

#### *“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 European Central Bank and the national central banks of the EU Member States whose currency is the euro);
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating 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 Issuer undertakes that on any Business Day the Other Assets include assets specified under (a) above corresponding to “AAA” or equivalent rated sovereign bonds from a EU Member-State, or Italian Sovereign Bonds, the United States, Japan and/or Canada or other assets specified under (b) above with credit institutions having a minimum rating at least equal to “A” or equivalent, in an amount (as calculated by the Issuer on such Business Day) at least equal to the interest payments due by the Issuer under the outstanding Covered Bonds during the next 90 days.

The aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool mortgage credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law.

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal without first obtaining (in each case for so long as the Covered Bonds are rated by such rating agency) from Moody’s, Fitch and Standard & Poor’s a confirmation that any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

#### **HEDGING CONTRACTS**

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

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least «A-» or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice (“*Aviso*”), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding

Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits comprised in the Cover Pool will be managed through the Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

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

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

Under the terms of the proposed Hedging Contracts to be entered into with the Hedge Counterparty, if the rating of any Hedge Counterparty's (or, if applicable, its credit support provider's) unsecured, unsubordinated debt obligations fall below certain minimum ratings by S&P and/or Moody's and/or Fitch, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with the ratings required by the relevant rating agency; (iii) procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action as it may agree with the relevant rating agency. Failure by the Hedge Counterparty to take such steps within the applicable time periods may allow the Issuer to terminate the Hedging Contracts.

In addition, certain other termination events and/or events of default may apply under the terms of the proposed Hedging Contracts, which may entitle the Hedge Counterparty and/or the Issuer to terminate the Hedging Contracts.

Upon any termination in whole or in part of the Hedging Contracts, the Issuer may be required to make (or be entitled to receive) a termination payment to (or from) the Hedge Counterparty.

The Hedging Contracts will be governed by English law.



### **LOAN-TO-VALUE RESTRICTIONS**

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, and (ii) 80 per cent. of the value of the Property, if it is residential property, or 60 per cent. of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

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

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which are required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

### **OVERCOLLATERALISATION**

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding irrespective of the fact those Covered Bonds are Zero Coupon Bonds or not may not exceed 95 per cent. of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise of the Cover Pool with respect to outstanding Covered Bonds at a minimum level of 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) (A) so long as the Covered Bonds are rated A3 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated A3 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15.

See *Terms and Conditions of the Covered Bonds*.

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

- (a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;

- (b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal irrespective of the fact those Covered 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 European Central Bank as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yield curve.

#### **COMPLIANCE WITH FINANCIAL REQUIREMENTS**

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

- (a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or
- (b) allocating additional Other Assets; and/or
- (c) acquiring Covered Bonds in the secondary market.

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

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

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice (“**Aviso**” or “**Regulation**”), requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining

the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulation 6/2006.

### ***Valuation of Properties***

#### *General Overview*

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (i) the sustainable long term characteristics of such Property, (ii) the standard conditions of the local market, (iii) the current use of the relevant Property, and (iv) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the “**market value**” of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (i) the Property is publicly put on sale, (ii) the market conditions allow for a regular transfer of such Property, and (iii) there is a normal period of time to, considering the nature of the Property in question, to negotiate the purchase and sale of such Property.

#### *Valuation by expert*

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (i) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (ii) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

- (a) the valuations are carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Group;
- (b) the valuations are subject to a written report from the valuation expert that includes in a clear and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;
- (c) the Properties have been valued in light of the corresponding market value, as established by Regulation 5/2006; and
- (d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the real estate valuation

expert in the Property subject to the valuation; (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Group, provided such valuation expert is independent from the credit analysis and decision making process within the Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January in each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

#### *Methods of valuation*

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

- (a) Cost method;
- (b) Income method; or
- (c) Comparison method.

#### *Valuation report*

Each real estate valuation expert appointed by the Issuer shall prepare a report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

- (a) the identification of the relevant Property, with a detailed description of its characteristics;
- (b) a description and basis of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken into account;
- (c) a description of possible qualifications to the analysis;
- (d) the valuation of the Property, in terms of both the value of the Property and of the market value of the Property;
- (e) a statement of the valuation expert that he has effected the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations;
- (f) the date of the valuation and the identification and the signature of the valuation expert.

#### *Subsequent valuations of Properties and subsequent update of the value of Properties*

In respect of Mortgage Credits that exceed (i) 5 per cent. of the own funds of the Issuer or (ii) €500,000, in the case of residential Properties, or €1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties.

The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indexes or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indexes and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indexes and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of the review.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise in the terms set forth in the Covered Bonds Law and in the Cover Pool Monitor Agreement, compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

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

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

- (a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
- (b) the securities eligible for Eurosystem credit transactions shall be for the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

### ***Insurance***

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt. Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant Mortgage Credit.

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

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

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets (*património autónomo*), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

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

- (i) the outstanding principal amount;
- (ii) the applicable interest rate;
- (iii) the applicable maturity;
- (iv) the notary's office where the relevant mortgage was entered into, when applicable; and
- (v) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

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

### *Special creditor privilege*

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

## **INSOLVENCY OF THE ISSUER**

The Covered Bonds Law governs the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

- (i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes:
- (ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds, including, without limitation:
  - a. selling the Mortgage Credits comprised in the Cover Pool;
  - b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool;

- c. performing all other acts and administrative services in connection with such Mortgage Credits and related Mortgages and Additional Security;
- (iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and
- (iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

In the event of insolvency of the Issuer, the assets allocated to one or more issues of Covered Bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of Covered Bonds has been made. In any case, and even if the Issuer is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the Covered Bonds shall continue to be carried out.



## **COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS**

BNP Paribas Trust Corporation UK Limited, with registered office at 55 Moorgate, London EC2R 6PA, has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement.

The Issuer has appointed the Common Representative to represent the holders of Covered Bonds. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Commercial Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, namely: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

## **COVER POOL MONITOR**

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

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the “**Cover Pool Monitor**”) who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of 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 Covered Bonds.

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

Pursuant to the Cover Pool Monitor Agreement, dated 30<sup>th</sup> April 2008, 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 Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

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

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

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor will perform certain quarterly agreed upon procedures in the terms set forth in the Cover Pool Monitor Agreement in order to prepare a quarterly report to be delivered to the Issuer indicating any non-compliance by the Issuer with the requirements of the Cover Pool and/or the Covered Bonds Law.

If as a result of the work referred to in the precedent paragraph a non-compliance with the Covered Bonds Law and/or the Requirements of the Cover Pool is identified by the Cover Pool Monitor, it shall notify the Issuer, as soon as reasonably practicable, of such event. If the non-compliance remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arranger and the relevant Dealers of the non-compliance.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*aviso*"), after consultation with the CMVM and the Portuguese Association of the Chartered Accountants ("*Ordem dos Revisores Oficiais de Contas*"), the requirements applicable to the content, format and disclosure of any reports of the Cover Pool Monitor. Until the present date the Bank of Portugal has not issued any notice on these matters.

#### **REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR**

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may 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

Banco BPI 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 31<sup>st</sup> December 2013 Banco BPI served approximately 1,708 thousand customers through its multi-channel distribution network comprising 592 retail branches, 39 investment centres, 53 corporate centres, a network of 28,726 commercial partners, a home-banking service and a telephone banking service.

In addition, Banco Português de Investimento, the BPI Group's original matrix, is engaged in investment banking business – Equities, Corporate Finance and Private Banking – at Iberian Peninsula level. With regard to asset management, Banco BPI manages unit trust (mutual) funds, pension funds and life-capitalisation insurance, which it distributes via Banco BPI and Banco Português de Investimento.

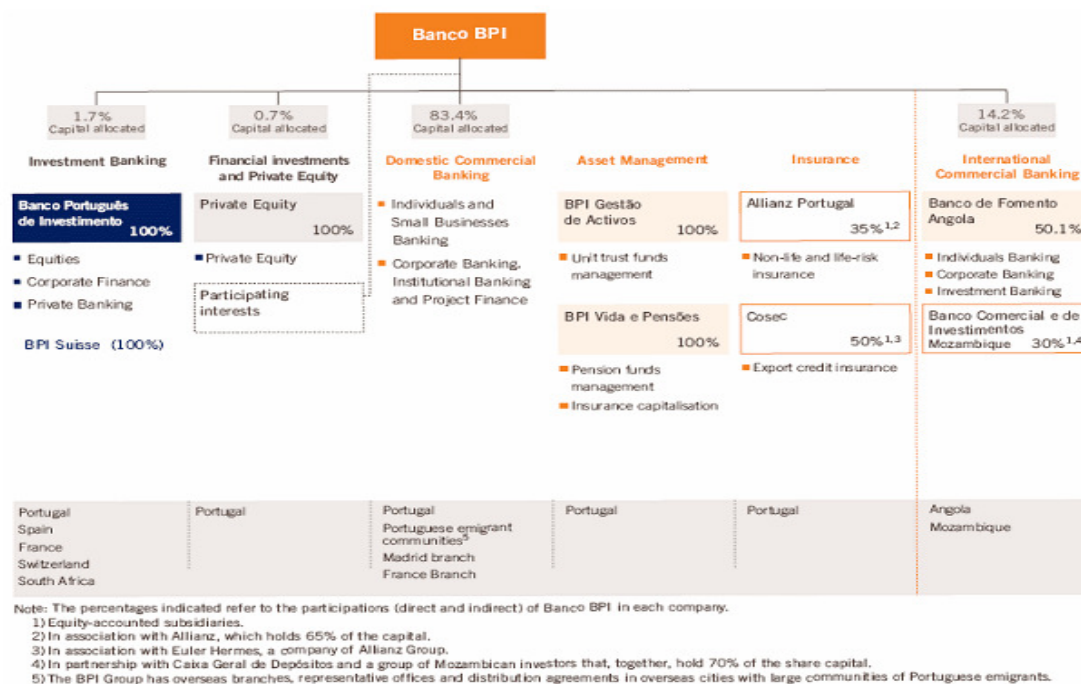
In Angola, Banco BPI has a 50.1 per cent. shareholding in Banco de Fomento Angola (“**BFA**”), which, at the end of December 2013 served a total of 1,193 thousand customers with a network of 151 branches, 8 investment centres and 16 corporate centres.

In Mozambique, as of 31<sup>st</sup> December 2013, BCI served a total of 777 thousand customers with a network of 125 branches and 7 business centers. The contribution to the result of the 30 per cent stake in BCI (Mozambique), was €1.5 million (€2.8 million in the 1st quarter of 2013).

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

Banco BPI is the parent company of the companies shown below and Banco BPI's financial results are partially dependent upon the cash flows and dividends from these subsidiaries.

## Main units of the BPI Group



Source: Banco BPI's website (as at 31<sup>st</sup> December 2013)

The percentage figures indicated in the first line of the organisational chart reflect the percentage of the shareholders equity of Banco BPI allocated to the respective business area; the remaining percentage figures included in the chart refer to the direct and indirect participation of Banco BPI in the share capital of each company.

## HISTORY

Banco BPI, S.A. was formed in 25<sup>th</sup> May 1998 by the merger of Banco Fonsecas & Burnay, Banco de Fomento e Exterior and Banco Borges & Irmão. Later that year Banco Universo (an in-store bank) was acquired by Banco BPI.

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.

In 2011, BPI Group completed its 30<sup>th</sup> year of existence since the creation of SPI – Sociedade Portuguesa de Investimentos in 1981.

## ESTABLISHMENT AND DOMICILE

Banco BPI is domiciled in Rua Tenente Valadim, 284, 4100-476 Porto, Portugal telephone number +351 22 2075000.

## LEGAL FORM

Banco BPI is registered as a bank with the Bank of Portugal and operates under the legal name of “Banco BPI, S.A.”. Banco BPI 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 nr. 501 214 534 as at 23<sup>rd</sup> October, 1981.

## OBJECT AND PURPOSE

According to its constitutional documents (in particular to article 3 of Banco BPI’s Memorandum and Articles of Association), the object of Banco BPI 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. Banco BPI 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

As at 31<sup>st</sup> March 2014, the main shareholders of Banco BPI were La Caixa Group (with an interest of 46.2 per cent.), Santoro (19.5 per cent.), Allianz Group (8.8 per cent.) and HVF SGPS, S.A. (2.1 per cent.).

### Shareholders owning more than 2% of Banco BPI’s capital<sup>1,2</sup>

At 31 December 2013

Shareholders	No. of shares held	% of capital held
La Caixa Group <sup>3</sup>	642 462 536	46.2%
Santoro <sup>4</sup>	270 643 372	19.5%
Allianz Group <sup>5</sup>	122 744 370	8.8%
HVF SGPS, S.A. <sup>6</sup>	28 854 874	2.1%

Note: Shareholder positions recorded at 31 December 2013 at the securities clearing house (Central de Valores Mobiliários - CVM), based on the information received from the Central de Valores Mobiliários.

- 1) According to a statutory provision, the voting rights for purposes of their exercise are limited to 20%.
- 2) At 31 December 2013, companies controlled by the director Armando Leite de Pinho held 7 856 695 shares representing 0.6% of BPI’s capital. Persons related by family ties and companies linked to them owned holdings which, added to the abovementioned, totalled 31 901 087 shares representing 2.3% of BPI’s capital. According to the information which the Bank has, this does not mean that the aforesaid aggregate constitutes a qualified shareholding in BPI in terms of article 16 and following of the Securities Code.
- 3) Through Caixabank, S.A., which is 64.4% held by the parent company of the La Caixa Group, Caixa d’Estalvis i Pensions de Barcelona (“La Caixa”), entity to which whom is attributed the referred participation in Banco BPI, under the article 20 (1)(b) of the Securities Code.
- 4) Directly held by Santoro Finance - Prestação de Serviços, SA (“Santoro Finance”), and, under the article 20 (1)(b) of the Securities Code, imputable to Santoro Financial Holdings, SGPS (“Santoro”), as owner of the entire capital of Santoro Finance, and to Eng. Isabel José dos Santos, in her capacity as controlling shareholder of Santoro Financial Holdings, SGPS.
- 5) Through the subsidiaries controlled by Allianz SE and attributable to this entity under the article 20(1)(b) of the Securities Code: direct shareholding of 8.67% held by Allianz Europe Ltd. (100% held by the Allianz Group) and a direct shareholding of 0.16% held by Companhia de Seguros Allianz Portugal (65% held by the Allianz Group).
- 6) Participating interest held via Violas Ferreira Financial, S.A., whose share capital is fully held by HVF, SGPS, S.A., and, in terms of the provisions of article 20(1)(d) of the SC, includes 242 000 shares held by Otilia Soares Violas Alves Ferreira (0.02% of Banco BPI’s capital) and 261 083 shares held by Edgar Alves Ferreira (0.02% of Banco BPI’s capital), respectively Chairman and member of the Board of Directors of HVF - SGPS.

Source: Banco BPI’s website (as at 31<sup>st</sup> December 2013)

To the extent known to the Issuer, no shareholder holds, directly or indirectly or controls directly or indirectly, more than 50 per cent of its share capital. Furthermore, BPI's bylaws impose a voting cap of 20 per cent of the voting rights. As per Article 20 - 4.b) of the Memorandum and Articles of association of Banco BPI, the following votes are not considered: a) those cast by a single shareholder, in his/her own name and also as proxy of one or more shareholders, exceeding 20 per cent. of the total number of votes corresponding to the share capital; b) those cast by a single shareholder, in his/her own name and also as proxy of one or more shareholders with whom he/she is any of the relationships set out in Article 20 of the Portuguese Securities Code and which, as a whole, exceed 20 per cent. of the total number of votes corresponding to the share capital.

## **BUSINESS OVERVIEW OF BANCO BPI**

BPI Group's activity is divided into two main geographic areas:

- (1) Domestic Activity including Domestic Commercial Banking, Investment Banking and Private Equity and Financial Investments; and
- (2) International Commercial Banking.

### *Domestic Activity*

The Domestic Commercial Banking business relates to banking activity carried out with companies, individuals and institutions in Portugal and includes the provision of overseas banking services to non-residents, namely to emigrant communities and the Madrid branch, and also relates to investment banking services, private equity, asset management and insurance.

Domestic Commercial Banking is organised in two major business areas:

- Individuals and Small Businesses Banking; and
- Corporate, Project Finance and Institutional Banking.

The Individuals and Small Businesses Banking serves individual customers, including high net-worth individuals, and small businesses with turnover of up to €5 million.

The Corporate, Project Finance and Institutional Banking serves companies with a turnover of more than €2 million, operating in competition with Individuals and Small Business Banking in the segment up to €5 million, and also includes the provision of project finance services and the relationship with Public Sector, State-owned and Municipalities Companies, and the State Business Sector, Foundations and Associations.

The Corporate Banking, Institutional Banking and State Owned Enterprises areas manage in an integrated manner BPI's relationship with its corporate and institutional client base, as well as the respective range of products and services. Corporate Banking customers are divided into segments according to their respective business volumes - Large Corporations and Companies - and according to their specific business mission - Project Finance, Institutional Banking and State Owned Enterprises.

The Corporate Banking network includes two support areas for large corporations (North-Oporto and South-Lisbon), together with three regional divisions (North, Centre, South and Islands) to serve the

rest of the corporate market. These divisions coordinate 47 corporate centres scattered around the country and include a Spanish companies division and other multinational centres specifically designed to serve the specific needs of customers with Iberian operations.

The Institutional Banking and State Owned Enterprises division caters to institutional clients, public sector companies and other public sector controlled entities. This division has a commercial network composed of six institutional centres.

The Project Finance division is dedicated to the arrangement, structuring and participation in project finance operations and public-private partnerships, as well as in other structured finance deals.

Investment Banking activities are conducted by Banco Português de Investimento, and are structured into four main areas: Equities, Corporate Finance, Private Equity and Private Banking.

The activities carried out abroad by branches and representative offices which are intended, in general, to serve the needs of Portuguese expatriates as well as to provide a link for Portuguese companies in their business with local parties, are integrated in the Domestic Commercial Banking area.

Banco BPI has offshore branches in the Cayman Islands and Macau and also twelve branches in France and one in Spain. It also has representative offices in London, Geneva, Hamburg, Toronto, Caracas and Johannesburg, an information office in Luxembourg and money remitters in Newark and Rhode Island.

#### *International Commercial Banking*

International Commercial Banking Activity refers to business operations conducted through a 50.1 per cent. shareholding in BFA in Angola and through a 30 per cent. shareholding in BCI in Mozambique.

## **SHARE CAPITAL**

As at 16<sup>th</sup> June 2014, Banco BPI's share capital amounted to €1,293,063,324.98 and was represented by 1,456,924,237 ordinary shares with no nominal value (all issued shares are fully paid).

## **SELECTED HISTORICAL KEY FINANCIAL INFORMATION**

The following tables contain selected key financial information for the years ended 31<sup>st</sup> December 2012 and 2013 and for the first quarter of 2014 (Financial information presented for the first quarter of 2014 is unaudited):

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 unaudited financial statements for the first quarter of 2014.



## Leading indicators

Amounts in M.€

	Domestic activity			International activity			Consolidated		
	Dec.12	Dec.13	Chg.%	Dec.12	Dec.13	Chg.%	Dec.12	Dec.13	Chg.%
<b>Net profit, efficiency and profitability</b>									
Net profit (as reported)	162.6	- 28.3	(117.4%)	86.5	95.2	10.0%	249.1	66.8	(73.2%)
Net profit (as reported) per share (EPS) <sup>1)</sup>	0.142	-0.020	(114.4%)	0.075	0.069	(8.8%)	0.217	0.048	(77.8%)
Weighted average number of shares <sup>1),2)</sup>	1,146	1,384	20.7%	1,146	1,384	20.7%	1,146	1,384	20.7%
Efficiency ratio <sup>3)</sup>	50.1%	72.4%		41.4%	39.7%		48.1%	62.1%	
Efficiency ratio excl. non-recurring impacts	71.0%	86.5%		41.4%	39.7%		62.1%	69.4%	
Return on average total assets (ROA)	0.4%	-0.1%		3.0%	3.0%		0.8%	0.4%	
Return on Shareholders' equity (ROE)	10.2%	-1.5%		27.4%	28.4%		13.1%	2.9%	
<b>Balance sheet</b>									
Net total assets <sup>4)</sup>	39 659	37 339	(5.8%)	6 048	6 456	6.7%	44 565	42 694	(4.2%)
Loans to Customers	26 263	24 893	(5.2%)	1 082	1 072	(1.0%)	27 345	25 965	(5.0%)
Deposits	18 530	18 907	2.0%	5 270	5 645	7.1%	23 800	24 551	3.2%
Deposits and retail bonds	20 472	19 819	(3.2%)	5 270	5 645	7.1%	25 742	25 463	(1.1%)
On-balance sheet Customer resources	23 196	23 025	(0.7%)	5 270	5 645	7.1%	28 466	28 669	0.7%
Off-balance sheet Customer resources <sup>5)</sup>	2 913	3 138	7.7%				2 913	3 138	7.7%
Total Customer resources <sup>5)</sup>	25 646	25 924	1.1%	5 270	5 645	7.1%	30 916	31 568	2.1%
<b>Asset quality</b>									
Loans in arrears for more than 90 days	839	926	10.4%	53	50	(5.0%)	892	976	9.5%
Ratio of loans in arrears <sup>7)</sup>	3.1%	3.6%		4.6%	4.4%		3.2%	3.6%	
Credit at risk <sup>8)</sup>	4.1%	5.0%		6.5%	6.5%		4.2%	5.1%	
Cost of credit risk <sup>9)</sup>	0.91%	0.98%		1.07%	0.56%		0.92%	0.96%	
<b>Pension liabilities</b>									
Employees pension liabilities	937	1 082	15.5%				937	1 082	15.5%
Employees pension funds assets	987	1 129	14.4%				987	1 129	14.4%
Cover of pension obligations <sup>10)</sup>	105.4%	104.3%					105.4%	104.3%	
<b>Capital</b>									
Shareholders' equity and minority interests	1 443	1 642	13.8%	618	664	7.5%	2 061	2 306	11.9%
Core Tier I							3 684	3 477	(5.6%)
Own funds							3 675	3 403	(7.4%)
Risk weighted assets							24 512	21 016	(14.3%)
Core Tier I							15.0%	16.5%	
Tier I							14.9%	16.2%	
Capital ratio							15.0%	16.2%	
<b>CRD IV/CRR phasing in (rules for 2014)</b>									
Core Tier I								15.6%	
Leverage ratio								7.6%	
LCR = Liquidity coverage ratio								350%	
NSFR = Net Stable Funding Ratio								114%	
<b>CRD IV/CRR fully implemented</b>									
Core Tier I								11.2%	
Leverage ratio								5.5%	
LCR = Liquidity coverage ratio								350%	
NSFR = Net Stable Funding Ratio								113%	
<b>Distribution network and staff</b>									
Distribution network <sup>11)</sup>	747	696	(6.8%)	167	175	4.8%	914	871	(4.7%)
BPI Group staff <sup>12)</sup>	6 400	6 274	(2.0%)	2 280	2 446	7.3%	8 680	8 720	0.5%

1) Figures adjusted for the capital increase through cash injection in August 2012.

2) Average outstanding number of shares, deducted of treasury stock.

3) Operating costs as % of net operating revenue.

4) The total assets for each of the geographical segments presented above has not been corrected for the balances resulting from operations between these segments.

5) Unit trust funds, PPR and PPA (excludes pension funds).

6) Corrected for double counting: placements of unit trust funds managed by BPI in the Group's deposits, structured products and unit trust funds.

7) Loans in arrears for more than 90 days.

8) Calculated in accordance with Bank of Portugal Instruction 23/2011. It includes loans in arrears for more than 90 days, falling-due loans associated, restructured loans (previously with instalments in arrears for more than 90 days), insolvencies that have not yet been included in loans in arrears for more than 90 days.

9) Loan impairments in the period (P&L account), net of anear loans recovered, as percentage of the average performing loan portfolio.

10) Cover of pension obligations by the pension funds assets.

11) Includes traditional branches, housing shops, investment centres, corporate centres, Institutional and one Project Finance centre. Domestic activity distribution network includes branches in Paris (12 branches).

12) Excludes temporary workers.

## Leading indicators

Amounts in M.€

	Domestic activity			International activity			Consolidated		
	Mar.13	Mar.14	Chg.%	Mar.13	Mar.14	Chg.%	Mar.13	Mar.14	Chg.%
<b>Net profit, efficiency and profitability</b>									
Net profit (as reported)	21,2	-129,2	(708,8%)	19,3	24,4	26,4%	40,5	-104,8	(358,8%)
Net profit (as reported) per share (EPS)	0,015	-0,093	(708,1%)	0,014	0,018	26,2%	0,029	-0,076	(358,5%)
Weighted average number of shares <sup>1)</sup>	1.384	1.385	0,1%	1.384	1.385	0,1%	1.384	1.385	0,1%
Efficiency ratio excl. non-recurring impacts (last 12 months)	70,9%	87,0%		41,9%	37,7%		62,2%	68,3%	
Return on average total assets (ROA)	0,2%	-1,4%		2,5%	3,0%		0,5%	-0,7%	
Return on Shareholders' equity (ROE)	4,4%	-11,5%		23,1%	26,9%		7,2%	-5,2%	
<b>Balance sheet</b>									
Net total assets <sup>3)</sup>	38 261	36 270	(5,2%)	6 089	6 637	9,0%	43 129	41 968	(2,7%)
Loans to Customers	26 095	24 669	(5,5%)	1 098	1 087	(1,0%)	27 193	25 757	(5,3%)
Deposits	18 853	18 903	0,3%	5 249	5 781	10,1%	24 102	24 684	2,4%
Deposits and retail bonds	20 439	19 740	(3,4%)	5 249	5 781	10,1%	25 688	25 521	(0,6%)
On-balance sheet Customer resources	23 148	23 204	0,2%	5 249	5 781	10,1%	28 397	28 985	2,1%
Off-balance sheet Customer resources <sup>4)</sup>	3 067	3 210	4,7%				3 067	3 210	4,7%
Total Customer resources <sup>5)</sup>	25 670	26 086	1,6%	5 249	5 781	10,1%	30 919	31 867	3,1%
Loans to deposits ratio (Instruction 23/2011 BoP)	126%	116%		21%	19%		104%	94%	
<b>Asset quality</b>									
Loans in arrears for more than 90 days	871	931	6,9%	57	51	(10,8%)	928	982	5,8%
Ratio of loans in arrears <sup>6)</sup>	3,2%	3,6%		4,9%	4,4%		3,3%	3,7%	
Impairments cover of loans in arrears <sup>6)</sup>	93%	102%		146%	153%		97%	104%	
Credit at risk <sup>7)</sup>	4,6%	5,2%		7,6%	6,3%		4,7%	5,2%	
Impairments cover of credit at risk <sup>7)</sup>	70%	78%		93%	107%		72%	79%	
Cost of credit risk <sup>8)</sup>	0,98%	0,62%		0,52%	1,03%		0,96%	0,64%	
<b>Pension liabilities</b>									
Employees pension liabilities	940	1 089	15,8%				940	1 089	15,8%
Employees pension funds assets	1 033	1 202	16,3%				1 033	1 202	16,3%
Cover of pension obligations <sup>9)</sup>	109,9%	110,4%					109,9%	110,4%	
<b>Capital</b>									
Shareholders' equity and minority interests	1 491	1 845	23,7%	674	711	5,5%	2 165	2 557	18,1%
<b>Bank of Portugal rules (in force until 31 Dec.13)</b>									
Core Tier I							3 545	2 899	(18,2%)
Risk weighted assets							23 611	20 680	(12,4%)
Core Tier I ratio							15,0%	14,0%	
<b>CRD IV/CRR phasing in (rules for 2014)</b>									
Core Tier I								2 798	
Risk weighted assets								21 192	
Core Tier I ratio								13,2%	
Leverage ratio								7,3%	
LCR = Liquidity coverage ratio								464%	
NSFR = Net Stable Funding Ratio								106%	
<b>CRD IV/CRR fully implemented</b>									
Core Tier I								2 022	
Risk weighted assets								20 803	
Core Tier I ratio								9,7%	
Leverage ratio								5,6%	
LCR = Liquidity coverage ratio								464%	
NSFR = Net Stable Funding Ratio								106%	
<b>Distribution network and staff</b>									
Distribution network <sup>10)</sup>	745	696	(6,6%)	171	176	2,9%	916	872	(4,8%)
BPI Group staff <sup>11)</sup>	6 378	6 254	(1,9%)	2 331	2 461	5,6%	8 709	8 715	0,1%

1) Average outstanding number of shares, deducted of treasury stock.

2) Operating costs as % of net operating revenue.

3) The total assets for each of the geographical segments presented above has not been corrected for the balances resulting from operations between these segments.

4) Unit trust funds, PPR and PPA (excludes pension funds).

5) Corrected for double counting: placements of unit trust funds managed by BPI in the Group's deposits, structured products and unit trust funds.

6) Loans in arrears for more than 90 days.

7) Calculated in accordance with Bank of Portugal Instruction 23/2011. It includes loans in arrears for more than 90 days, falling-due loans associated, restructured loans (previously with instalments in arrears for more than 90 days), insolvencies that have not yet been included in loans in arrears for more than 90 days.

8) Loan impairments in the period (P&L account), net of arrear loans recovered, as percentage of the average performing loan portfolio. In annualised terms.

9) Cover of pension obligations by the pension funds assets.

10) Includes traditional branches, housing shops, investment centres, corporate centres, Institutional and one Project Finance centre. Domestic activity distribution network includes branches in Paris (12 branches).

11) Excludes temporary workers.

The auditor's reports on the consolidated financial statements of Banco BPI for the years ended 31<sup>st</sup> December 2012 and 31<sup>st</sup> December 2013 did not include any reserves.

Please refer to the complete versions of the auditor's reports included in the annual reports 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 31<sup>st</sup> March 2014 and no new material investments have been approved as at the date of this Prospectus.

## **RATINGS**

The ratings assigned to Banco BPI from time to time are available for consultation at <http://bpi.bancobpi.pt/index.asp?riIdArea=AreaDivida&riId=DRatings>. The long term/short term ratings currently assigned to Banco BPI are Ba3/Not Prime by Moody's, BB+/B by Fitch and BB-/B 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**

BPI'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 – formed by professionals independent from any shareholders' or specific interests – to which the Board has delegated wide management powers for conducting the day-to-day activity. Within the ambit of the Board of Directors, four specialist commissions function, composed exclusively of non-executive members: (i) the Audit and Internal Control Committee, whose remit is to work especially close to the Executive Committee; (ii) the Financial Risks Committee, whose role, without prejudice to the functions of the Supervisory Board, is to monitor the policy management of all financial risks, including credit risks, the Bank's activities and the management of the pension fund (iii) the Corporate Governance Committee, which is charged with supporting and advising the Board of Directors for the improvement of the governance and oversight model and making pronouncements on matters relating to social responsibility, ethics, professional conduct, and environmental protection and (iv) the Nominations, Evaluation and Remuneration Committee, whose role is to give opinions on the filling of vacancies occurring on the governing bodies, on the choice of Directors to be

appointed to the Executive Committee and on the evaluation and annual variable remuneration of this body's members.

- 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 company's Articles of Association, verifying the accounts, supervising the independence of the Portuguese Statutory Auditor and the external auditor, as well as evaluating the last-mentioned work - and to the Portuguese Statutory Auditor (“*Revisor Oficial de Contas*”), whose prime function is to examine and then certify the accounts.
- the General Shareholders’ Meeting, composed of all Banco BPI shareholders, 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 shareholders, is elected by the General Shareholders’ Meeting. The Committee fixes the remuneration of the officers serving on Banco BPI'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 by the Bank.

## MANAGEMENT

The following is a list of the members of the Board of Directors and of the Executive Committee of Banco BPI for the 2014/2016 term of office<sup>13</sup>. The business address of each of the below-mentioned members of the Board of Directors and the Executive Committee is Banco BPI, S.A., Largo Jean Monnet, 1, 1269-067 Lisbon, Portugal.

The Annual Report for 2013, on pages [331] to [335], contains a description of the activities performed by the members of the Board of Directors outside the Issuer.

### Board of Directors:

<i>Chairman:</i>	Artur Santos Silva
<i>Deputy-Chairmen:</i>	Fernando Ulrich
<i>Members:</i>	Alfredo Rezende de Almeida
	Allianz Europe, Ltd
	António Domingues

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António Lobo Xavier  
Armando Leite de Pinho  
Carlos Moreira da Silva  
Edgar Alves Ferreira  
Isidro Fainé Casas  
Ignacio Alvarez-Rendueles  
João Pedro Oliveira e Costa  
José Pena do Amaral  
Juan Maria Nin  
Manuel Ferreira da Silva  
Marcelino Armenter Vidal  
Maria Celeste Hagatong  
Mário Leite da Silva  
Pedro Barreto  
Santoro Finance – Prestação de Serviços, SA  
Tomaz Jervell  
Vicente Tardio Barutel

#### **CERTAIN RELATIONSHIPS**

Banco BPI is not aware of any potential conflicts of interests between any duties *vis-à-vis* Banco BPI 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 BOARD**

The Supervisory Board performs the functions attributed to it by law, the statutes and Banco BPI's internal regulations.

The Supervisory Board for the 2014/2016 term of office is composed of the following members, whose business address is the Issuer's head office:

*Chairman:* Abel António Pinto dos Reis

*Members:* Jorge de Figueiredo Dias

Rui Campos Guimarães

Miguel Silva Artiaga Barbosa

The Supervisory Board's composition is deliberated upon by the General Shareholders' Meeting of the Issuer. Mr. Miguel Silva Artiaga Barbosa was appointed by Ministerial Order (“*Despacho*”) of the Minister of Finance nr 15463-B/2012, of 2<sup>nd</sup> December and started his functions on 17<sup>th</sup> January 2013, as notified by the Bank of Portugal. The Supervisory Board exercises its function for terms of three years.

Besides any other competence set out in law or in the Bank's articles of association, the Supervisory Board is responsible for:

- Overseeing the process involving the preparation and disclosure of any financial information;
- Reviewing the effectiveness of internal-control, internal-audit and risk-management systems;
- Receiving reports of irregularities submitted by shareholders, company employees or others;
- Monitoring the statutory audit; and
- Reviewing and overseeing the independence of the statutory auditor, namely whenever the statutory auditor provides other services to the Company.

The Supervisory Board meets at least every two months.

Banco BPI is not aware of any potential conflicts of interest between any duties *vis-à-vis* Banco BPI of the members of the Supervisory Board and their private interests or other duties.

#### **PORTUGUESE STATUTORY AUDITOR**

The Statutory Auditor (“*Revisor Oficial de Contas*”) of Banco BPI is Deloitte & Associados, SROC, S.A., which is a member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), with registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 - 6º, 1050-094, Lisbon, Portugal, represented by António Marques Dias (Statutory Auditor – “*Revisor Oficial de Contas*”), who is also a member of the Portuguese Institute of Statutory Auditors. The alternate member is Carlos Luís Oliveira de Melo Loureiro.

## **THE ORIGINATOR'S STANDARD BUSINESS PRACTICES, CREDIT ASSESSMENT AND SERVICING OF THE COVER POOL**

### **THE RESIDENTIAL MORTGAGE BUSINESS OF BANCO BPI**

The residential mortgage business is one of the most important segments in the credit activity of Banco BPI, representing about 46 per cent. of Banco BPI's credit portfolio. Banco BPI is an innovative bank and its offer of products and services is constantly updated in order to satisfy the client's needs and achieve the market's best practices. Banco BPI pays special attention to the management of credit risk and its credit policy is constantly monitored against economic and market conditions.

### **ORIGINATION**

Banco BPI's residential mortgage loans are originated through the branch network and real estate agents.

### **LENDING CRITERIA**

Certain key features of the criteria applied prior to approval of any advance in respect of a mortgage loan to be comprised in the Cover Pool (the "**Lending Criteria**") are set out below. The Originator has the right to vary or waive the Lending Criteria from time to time in the manner of a reasonably prudent mortgage lender (a "**Prudent Mortgage Lender**") and the Originator may have waived or varied the Lending Criteria acting as a Prudent Mortgage Lender in respect of the mortgage loans to be comprised in the Cover Pool. Only underwriting staff expressly granted the authority to do so may approve applications for mortgage loans which vary from the Lending Criteria.

The key features of the Lending Criteria applicable to mortgage loans are as follows:

- *Decision Criteria*

Credit approval is based on six criteria: (i) household disposable net income (RLD) has to be higher than certain minimum amounts defined according to the size of the household; (ii) the ratio of total monthly expenses to disposable net income has to be below 50 per cent.; for this purpose monthly expenses include insurance premiums, credit card expenses, fixed expenses with family allowance (if applicable) and the instalments of the loan under analysis, calculated by adding 2,5 per cent. to the applicable interest rate; the disposable net income includes salary and other sources of income that were certified by Banco BPI; (iii) the loan to value ratio (LTV) has to be below certain values defined according to the type and term of the loan, with a maximum of 80 percent; (iv) haircut that expresses the potential loss of value of an asset given as collateral; (v) mortgage credit scoring (since July 2007); and (vi) the risk class has to be below or equal to 7 (6 for mortgages with mixed instalments).

- *Insurance Cover*

Life, disability and property insurance coverage is mandatory for all mortgage loans. Although uncommon among Portuguese banks, Banco BPI requires the coverage of earthquake risk for all loans. Additional insurance coverage for unemployment risk, hospitalisation and coverage for late payment of salaries (“*Seguro de Protecção de Crédito*”) is optional.

- *Centralised Real Estate Evaluation*

All proposals are subject to an evaluation of the property carried out by an independent evaluator. The results are received and controlled by the central services, which also scrutinise the performance of the independent evaluators.

- *Decision Levels*

There are seven decision levels depending on the amount of the credit. Applications for mortgage loans which vary from the Lending Criteria are mandatorily analysed and decided at DRCP – DDCP (“*Direcção de Decisão de Crédito a Particulares*”).

## **UNDERWRITING**

The residential mortgage loan proposals are prepared at branches. Real estate agents must always channel their proposal through a branch, and the credit decision for these loans is made at DRCP - DDCP or in the commercial area.

All the information is registered in GPC (“*Gestor de Propostas de Crédito*” – management of credit applications). GPC allows the customer to have a preliminary decision, taking into account the rules and criteria in place at the time the proposal is analysed.

Once the proposal is pre-approved and the customer presents all required documents on income and identity, the branch verifies these documents and registers all the information in GPC. GPC automatically collects related credit information from the Bank of Portugal and Banco BPI databases. All these elements allow the branches and DRCP - DDCP (if applicable) to verify the information previously provided by the customer.

Once this stage is passed, Banco BPI sends an independent evaluator to visit and evaluate the property.

Results are received and verified centrally at DO-DOC (“*Direcção de Operações de Crédito*”). DO-DOC then checks all documents including valuation report and insurance application, in order to assure compliance with the existing rules and procedures. All additional information is registered in GPC and, if everything is in order, the customer then receives a letter with the final approval.

After dealing with all the legal documents necessary for the contract, the client signs the contract and Banco BPI (DO-DOC) verifies all the public registrations regarding property and mortgage.

## **MORTGAGE PRODUCTS**

Banco BPI offers a broad range of mortgage credit products in terms of applicable interest rate (fixed rate, EURIBOR index rate), and different reimbursement profiles. The maximum term is 50 years and maximum LTV ratio is 80 per cent. The average LTV ratio of loans originated in 2013 was 58.2



per cent., the average amount by contract was €80,100 and the average term was 33,8 years. All mortgage loans, once fully drawn, must be repaid in monthly instalments of principal and interest and paid by direct debit to an account with Banco BPI.

## **COLLECTIONS AND ARREARS PROCEDURES**

All collections including delinquencies, defaults, write-offs, recoveries, and foreclosure are dealt with at a central level within the loan management system (ODS).

ODS debits the customer account automatically. If there are not enough funds, the system will debit the amount available, with payment being made with the following priority: late payment fee, interest and principal. Simultaneously it is automatically reported to the commercial department responsible for the customer. While a payment is in arrears, this procedure will be repeated every day.

Automatic letters are sent to the borrower and to the guarantors when the first instalment and when the second instalment of a loan is missed, followed by telephone calls from specialised staff at Banco BPI's call centre. After 60 days in arrears, the customers will be personally visited by collectors and external companies to which Banco BPI has outsourced this task, followed by contacts from the borrower's branch, with the objective of collecting the missing payments and eventually renegotiating the loan. DRCP-DDCP is responsible for the decision on renegotiation proposals. By the 100<sup>th</sup> day, the process is transferred to DRCCP (*"Direcção de Recuperação e Contencioso de Crédito a Particulares"*) which starts negotiating directly with the borrower. If all the efforts for solving the situation prove unsuccessful by the 240<sup>th</sup> day, the execution request is delivered to court and the loan is accounted in "credits under legal action". During all the phases of the recovery process, Banco BPI never stops the negotiation efforts in order to reach an extrajudicial agreement.

## **USE OF PROCEEDS**

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

## THE COVERED BONDS LAW

### FRAMEWORK

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

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

### ISSUERS OF COVERED BONDS

Mortgage covered bonds (“*obrigações hipotecárias*”) may be issued by credit institutions (the “**Institutions**”) legally authorised to grant credits guaranteed by mortgages over property and having own funds amounting to no less than €7,500,000. Institutions can either be universal credit institutions (“**Credit Institutions**”) or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the “**Mortgage Credit Institutions**”).

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting and acquiring (i) credits guaranteed by mortgages, (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

If covered bonds are issued by a Mortgage Credit Institution backed by credits acquired from a third party originator, the cover assets must be transferred to the Mortgage Credit Institution and, if such Mortgage Credit Institution is wholly-owned by such originator, the assets and liabilities relating to the relevant issue of covered bonds and the related cover pool will be consolidated with such originator. However, it is also possible for a Mortgage Credit Institution to have multiple owners, in which case the issues of covered bonds and the allocated cover pool may or may not be consolidated with the originator of the relevant credits.

An Institution must manage its cover pool as well as any properties that it may acquire as a result of the enforcement of delinquent mortgage credits. Institutions may also undertake certain activities necessary to obtain additional liquidity.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form a separate estate, *i.e.* an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

## **COVER ASSETS**

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

- Pecuniary credits receivables which are not yet matured and neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by:
  - (a) first ranking mortgages over residential or commercial real estate located in an EU Member State; or
  - (b) junior mortgages but where all Mortgage Credits ranking senior thereto are held by the Issuer and are also allocated to the Cover Pool;
  - (c) a personal guarantee granted by a credit institution or an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

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 Issuer undertakes that on any Business Day the Other Assets include assets specified under (a) above corresponding to “AAA” or equivalent rated sovereign bonds from a EU Member-State, or Italian Sovereign Bonds, the United States, Japan and/or Canada or other assets specified under (b) above with credit institutions having a minimum rating at least equal to “A” or equivalent, in an amount (as calculated by the Issuer on such Business Day) at least equal to the interest payments due by the Issuer under the outstanding Covered Bonds during the next 90 days.

The aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool allocated as collateral to all Covered Bonds issued by the Issuer.

The geographical scope of eligible assets is restricted to credits guaranteed by first ranking mortgages on property located in the EU or loans granted to central governments and 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 Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

#### **VALUATION AND LTV CRITERIA**

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan-to-Value for residential mortgages is 80 per cent. and 60 per cent. for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool may not be higher than the commercial value of such property, determined in accordance with a prudent criteria and taking into consideration: (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of each such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii) the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

#### **ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS**

The Covered Bonds Law and the Bank of Portugal Regulations establish the following asset and liabilities matching requirements:

- The global nominal value of the outstanding mortgage covered bonds, irrespective of the fact those Covered Bonds are Zero Coupon Bonds or not, cannot exceed 95 per cent. of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool (*i.e.*, a mandatory overcollateralisation of 5.2632 per cent.);
- The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds;
- The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any point in time, the amount of interest to be collected from the mortgage credits and other assets comprised in the cover pool backing the relevant issue of covered bonds – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds;
- The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool assigned to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- (i) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- (ii) the covered bonds shall be accounted according to the nominal value of outstanding principal, irrespective of the fact those Covered 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 covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of “A-” or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated “A-” or above. If a particular issue of covered bonds is denominated in a currency other than euro, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, by (ii) purchasing outstanding covered bonds in the secondary market and/or by (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and redemptions occurred.

#### **COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION**

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

#### **SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS**

*Asset segregation*

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. If the holders of Covered Bonds decide to accelerate the relevant covered 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 Covered Bonds Law.

The assets included in the register maintained by the Institution will form a segregated estate over which the holders of the covered bonds will have a special creditor privilege (“*privilégio creditório*”), in particular in case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Credit Institutions General Regime, shall identify a substitute credit institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such project shall also describe the general framework and conditions under which those actions will be rendered by the substitute credit institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a substitute credit institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any substitute credit institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the substitute credit institution.

Furthermore, any substitute credit institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.



### *Preferential status for covered bonds holders*

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all series of covered bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

### **RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION**

Covered bonds issued in accordance with the Covered Bonds Law are in compliance with the requirements of paragraph 4 of Article 52 of the UCITS Directive, as well as with subparagraphs (a) to (f) of paragraph 1 of Article 129 of the CRR, **Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26<sup>th</sup> June 2013**. The risk-weighting applicable to covered bonds is also governed by Article 129 of the CRR.

## TAXATION

### Portugal

The following is a general description of certain Portuguese tax consequences of the acquisition and ownership of Covered Bonds. It does not purport to be an exhaustive description of all tax considerations that may be relevant to decide about the purchase of Covered Bonds. Notably, the following general discussion does not consider any specific facts or circumstances that may apply to a particular purchaser.

Prospective purchasers of Covered Bonds are advised to consult their own tax advisers as to the tax consequences resulting from the purchase, ownership and disposition of Covered Bonds, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or deemed to be, residents.

The economic advantages deriving from interests, amortisation or reimbursement premiums and other types of remuneration arising from Covered Bonds issued by private entities are qualified as investment income for Portuguese tax purposes.

#### 1. Covered Bonds not held through a centralised control system

Interest and other types of investment income obtained on Covered 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 it in his taxable income, subject to tax at progressive rates of up to 48 per cent. (plus (i) an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000, and (ii) a surtax of 3.5 per cent on income exceeding the annual national minimum wage). In this case, the tax withheld is deemed a payment on account of the final tax due.

Interest and other investment income paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35 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 Covered 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 Covered Bonds. Accrued interest qualifies as investment income, rather than as capital gains for tax purposes.

Interest and other investment income derived from Covered Bonds and capital gains realised with the transfer of Covered Bonds by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and is subject to a 23 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. 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.

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, 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 31<sup>st</sup> December, which may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

Interest and other investment income paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

A withholding tax rate of 35 per cent. applies in case of investment income payments to individuals or companies domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by Ministerial order (*Portaria*) no. 150/2004 of 13<sup>th</sup> February, amended by Ministerial Order (*Portaria*) 292/2011, of 8<sup>th</sup> November 2011 (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”).

Capital gains obtained on the transfer of Covered 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<sup>th</sup> February amended by Ministerial Order (*Portaria*) 292/2011, of 8<sup>th</sup> November 2011 (*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. Accrued interest does not qualify as capital gains for tax purposes.

Regarding capital gains obtained on the disposal of Covered Bonds by a legal person non resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the 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<sup>th</sup> February, amended by Ministerial Order (*Portaria*) 292/2011, of 8<sup>th</sup> November 2011 (*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*). If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese 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 Covered 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 Covered 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 23 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 Covered Bonds by an individual who is not domiciled in Portugal. The acquisition of Covered Bonds through gift or inheritance by a non resident legal person is subject to corporate 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 Covered Bonds.

## **2. Covered Bonds held through a centralised control system**

The regime described in 1. above corresponds to the general tax treatment of investment income and capital gains on Covered Bonds and to the acquisition through gift or inheritance of such Bonds.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7<sup>th</sup> November, as amended from time to time (“**the special regime approved by Decree-law 193/2005**”), investment income and capital gains on the disposal of debt securities issued

by Portuguese resident entities, such as the Covered 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<sup>th</sup> February, amended by Ministerial Order (*Portaria*) 292/2011, of 8th November 2011 (“*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 Covered 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 Covered Bonds), and prior to the transfer of Covered 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 Covered Bonds**

The beneficial owner of Covered Bonds must provide proof of non residence in Portuguese territory substantially in the terms set forth below.

- (i) If the beneficial owner of Covered 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 Covered Bonds itself, duly signed and authenticated or proof pursuant to (iv) below;

- (ii) If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner of Covered Bonds and its domicile; or (C) proof of non residence pursuant to (iv) below.
- (iii) If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, 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 Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3 year period starting on the date such document is produced. The beneficial owner of Covered Bonds must inform the register entity immediately of any change on the requirement conditions that may prevent the tax exemption to apply.

When the Covered 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 Covered Bonds**

If the Covered 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<sup>th</sup> February, amended by Ministerial Order (“*Portaria*”) 292/2011, of 8<sup>th</sup> November 2011 (“*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 Covered Bonds within 6 months from the date the withholding took place. A special tax form for these purposes was approved by Order (“*Despacho*”) 2937/2014, of the Portuguese Secretary of State for Tax Affairs, published in 2nd Series of Portuguese official gazette no. 37, of 21<sup>st</sup> February, which may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese tax authorities under the general procedures and within a 2 years period after the end of the year where the income was obtained.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC, of 3<sup>rd</sup> June 2003 (the “Directive”), as amended by EC Council Directive 2014/48/EC, on taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Belgium, Luxembourg and Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

Portugal has implemented the above Directive on taxation of savings income in the form of interest payments into the Portuguese law through Decree-Law no. 62/2005, of 11<sup>th</sup> March 2005, as amended by Law no. 39-A/2005, of 29<sup>th</sup> July 2005.



## **SUBSCRIPTION AND SALE AND SECONDARY MARKET ARRANGEMENTS**

The Dealer has in the Programme Agreement agreed with the Issuer a basis upon which it may from time to time agree to purchase Covered Bonds.

Any such agreement will extend to those matters stated under “*Form of the Covered Bonds and Clearing Systems*” and “*Terms and Conditions of the Covered Bonds*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealer for certain of its expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealer against certain liabilities incurred by it in connection therewith.

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

### **United States**

The Covered Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in accordance with Regulation S. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S.

Terms used in this paragraph have the meanings given to them by Regulation S. In addition, the Covered Bonds in bearer form are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

The Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by the Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, US persons, and it will have sent to each Dealer to which it sells Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Law no. 25 of 1948, as amended, the “**FIEL**”). Accordingly, the Dealer has agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEL and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### **United Kingdom**

The Dealer represents, warrants and agrees that it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving the United Kingdom.

### **Italy**

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (i) to professional investors (“*investitori qualificati*”) as defined in Article 100 of the Legislative Decree no. 58, of 24<sup>th</sup> February 1998, as amended (the “**Financial Services Act**”) and the relevant implementing CONSOB (“*Commissione nazionale per le Società e la Borsa*”) (the Italian Securities Exchange Commission) regulations, as amended from time to time, and Article 2 of Directive 2003/71/EC, of 4<sup>th</sup> November, *as amended from time to time*; or
- (ii) in other circumstances which are exempted from the rules on a solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation no. 11971, of 14<sup>th</sup> May 1999, as amended.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation no. 16910, of 29<sup>th</sup> October 2007 (as amended and Legislative Decree no. 385, of 1<sup>st</sup> September 1993, as amended (the “**Banking Act**”));
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy as amended, pursuant to which Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

- (c) in accordance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### **Public Offer Selling Restrictions under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), 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 Covered 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 Covered 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 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Covered Bonds referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Covered Bonds to the public**” in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented 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 24<sup>th</sup> November 2010.

### **Portugal**

In relation to the Covered 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, except as permitted by the Programme Agreement: (i) it has not directly or indirectly taken any action or offered, advertised, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which

could qualify as a public offer (“*oferta pública*”) of securities pursuant to the Portuguese Securities Code and other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; (ii) all offers, sales and distributions by it of the Covered Bonds have been and will only be made in Portugal in circumstances that, pursuant to the Portuguese Securities Code, qualify as a private placement of Covered Bonds only (“*oferta particular*”); (iii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal; (iv) if the Covered Bonds are subject to a private placement addressed exclusively to qualified investors (“*investidores qualificados*”), such private placement will be considered as a private placement of securities pursuant to the Portuguese Securities Code; (v) private placements addressed by companies open to public investment (“*sociedades abertas*”) or by companies issuing securities listed on a market shall be notified to the CMVM for statistics purposes; (vi) it will comply with all applicable provisions of the Portuguese Securities Code and any applicable CMVM Regulations and all relevant Portuguese laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; notably, the Dealer has represented and agreed that it shall at all times comply with all applicable laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code, the CMVM Regulations and the Prospectus Regulation implementing the Prospectus Directive, regarding the placement of any Covered Bonds in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be, including the publication of a Base Prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

### **General**

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 Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

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 Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefore.

### **Secondary Market Arrangements**

The Issuer may enter into agreements with the Dealer or other persons in relation to a Tranche or Series of Covered Bonds whereby the Dealer may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements

may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements. A description of the main terms of any such agreements and the names and addresses of the relevant Dealers or other persons who are party to such will be disclosed in the applicable Final Terms for the relevant Covered Bonds.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 13<sup>th</sup> December 2007, in accordance with the provisions of the Covered Bonds Law.

### Listing

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

### Clearing Systems

The Covered Bonds have been accepted for clearance through either Interbolsa or Euroclear and/or Clearstream Luxembourg, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by either Interbolsa or Euroclear and Clearstream, Luxembourg (as applicable) will be specified in the relevant Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

### Conditions for Determining Price

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

### Significant or Material Change

There has been no material adverse change in the financial position or prospects of the Issuer since the publication of the 31<sup>st</sup> December 2013 audited consolidated financial statements.

### Litigation

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 Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*") under nr. 43 and registered with the CMVM under nr. 231, have audited the consolidated accounts of Banco BPI in accordance with generally accepted auditing standards in Portugal and the International Auditing Standards.

The consolidated accounts for the financial years ended 31<sup>st</sup> December 2012 and 31<sup>st</sup> December 2013 were prepared according to International Accounting Standards (IAS) and with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (“IASB”) and endorsed by the European Union.

### **Documents Available**

Copies of the following documents will be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative and the Paying Agents for the time being:

- (a) The English translation of Articles of Association of the Issuer;
- (b) The English translation of the audited consolidated financial statements of the Issuer in respect of the financial years ended 31<sup>st</sup> December 2012 and 31<sup>st</sup> December 2013;
- (c) The English translation of the most recently published unaudited interim consolidated financial statements (if any) of the Issuer;
- (d) the Programme Agreement;
- (e) the Agency and Payments Procedures;
- (f) the Common Representative Appointment Agreement;
- (g) this Base Prospectus; and
- (h) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Electronic copy of this Base Prospectus**

Electronic copies of this Base Prospectus (and any supplements thereto) are available from the official website of the Issuer ([www.bancobpi.pt](http://www.bancobpi.pt)) and the official website of the CMVM ([www.cmvm.pt](http://www.cmvm.pt)).

### **Post issuance reporting**

Any information which the Issuer is required by law or regulation to provide in relation to itself or securities issued by it, including the Covered Bonds, will be made available at [www.cmvm.pt](http://www.cmvm.pt) and at [www.bancobpi.pt](http://www.bancobpi.pt).

### **Stabilising manager**

In connection with the issue of any Tranche (as defined in General Description of the Programme), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the

Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

### **Rating of the Covered Bonds**

Certain Series of Covered Bonds to be issued under this Base Prospectus may be rated or unrated. Where an issue of Covered Bonds is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to a relevant Series of Covered 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 29 and 30 of the Prospectus has been sourced from the websites of Standard and Poor's Credit Market Services Europe Limited, Moody's Investors Service Ltd and Fitch Ratings Limited. As far as the Issuer is aware and is able to ascertain from the ratings information published by Standard and Poor's Credit Market Services Europe Limited, by Moody's Investors Service Ltd and by Fitch Ratings Limited, 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 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) dated 30<sup>th</sup> April 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, agent bank and/or registrar appointed by the Issuer, as amended.

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

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

“**Auditor**” means Deloitte & Associados – SROC, S.A., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6<sup>th</sup>, 1050-094, Lisbon.

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

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

“**Base Prospectus**” means this base prospectus dated 4 July 2014, prepared in connection with the Programme.

“**Bearer Covered Bonds**” means any Covered Bonds in bearer form issued (whether or not in global form).

“**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.

“**Clearing Systems**” means Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg and/or, in relation to any Series of Covered Bonds, any other clearing system depository as specified in the relevant Final Terms, and, each, a “**Clearing System**”.

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

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

“**Common Representative**” means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 55 Moorgate, London EC2R 6PA, United Kingdom.

“**Common Representative Appointment Agreement**” means the agreement dated 30<sup>th</sup> April 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.

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

“**Couponholders**” means the persons who for the time being are holders of the Coupons.

“**Coupons**” means the interest coupons related to the Definitive Bearer Covered Bonds and for the time being outstanding or, as the context may require, a specific number of such coupons.

“**Cover Pool**” means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

“**Cover Pool Monitor**” means Deloitte & Associados – SROC, S.A., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 231, with registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6<sup>th</sup>, 1050-094, Lisbon.

“**Cover Pool Monitor Agreement**” means the agreement dated 30<sup>th</sup> April 2008 entered into between the Issuer and the Cover Pool Monitor, as amended from.

“**Covered Bond**” means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and “**Covered Bonds**” shall be construed accordingly.

“**Covered Bonds Law**” means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law no. 59/2006, of 20<sup>th</sup> March 2006, as amended.

“**CRA Regulation**” means Regulation (EC) no. 1060/2009, of the European Parliament and of the

Council, of 16<sup>th</sup> September 2009, as amended;

“**CRD IV**” means Directive 2013/36/EU of the European Parliament and of the Council of 26<sup>th</sup> June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investments firms, as amended;

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

“**CRR**” means Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26<sup>th</sup> June 2013, on prudential requirements for credit institutions and investment firms.

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

**"Dealer"** means Banco BPI, S.A., with head office at Rua Tenente Valadim, no. 284, Porto.

**"Definitive Covered Bond"** means any definitive Covered Bond, in bearer or registered form, issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

**"Definitive Bearer Covered Bond"** means any definitive Covered Bond in bearer form issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

**"Definitive Registered Covered Bond"** means any definitive Covered Bond in registered form issued whether or not in exchange for a Global Covered Bond in registered form held through Euroclear and/or Clearstream, Luxembourg.

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

**"Distribution Compliance Period"** means, in respect of Covered Bonds held through Euroclear and Clearstream, Luxembourg, the period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (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 in accordance with the Treaty.

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

“**Euronext Lisbon**” means the regulated market of *Euronext* Lisbon by Euronext Lisbon .

“**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.

“**Exchange Date**” means the date which is 40 days after a Temporary Bearer Global Covered Bond is issued;

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

“**Fitch**” means Fitch Ratings Limited.

“**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 Covered Bond**” means any global covered 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 Covered Bonds Law.

“**Hedging Contracts**” means the hedging contracts entered into by the Issuer in accordance with the Covered 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<sup>th</sup> October 2006, Decree-Law no. 298/92, of 31<sup>st</sup> 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<sup>th</sup> March 2004).

“**Instruction 13/2006**” means the regulatory Instruction (“*Instrução*”) no. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

“**Interest Amount**” means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds 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 Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

“**Issuer**” means Banco BPI, S.A.

“**Loan-to-Value**” means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Value of the Property securing such Mortgage Credit.

“**Maturity**” means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable;

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

“**Mortgage**” means, in respect of any Mortgage Credit, the charge by way of voluntary mortgage over the relevant Property the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

“**Mortgage Credit**” means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

- (a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;
- (b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;
- (c) it is a receivable secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

“**NGN**” means any bearer Covered Bond to be issued in new global note form.

“**Non-Performing Mortgage Credits**” means, with respect to a Mortgage Credit, that such Mortgage Credit:

- (a) is in the course of being foreclosed or otherwise enforced; or
- (b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

**“Other Assets”** means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

- (a) deposits with the Bank of Portugal, in cash or 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
- (c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal;

The Issuer undertakes that on any Business Day the Other Assets include assets specified under (a) above corresponding to “AAA” or equivalent rated sovereign bonds from a EU Member-State, or Italian Sovereign Bonds, the United States, Japan and/or Canada or other assets specified under (b) above with credit institutions having a minimum rating at least equal to “A” or equivalent, in an amount (as calculated by the Issuer on such Business Day) at least equal to the interest payments due by the Issuer under the outstanding Covered Bonds during the next 90 days

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

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

**“Overcollateralisation Percentage”** means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) (A) so long as the Covered Bonds are rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15, unless, always provided that (i) above is satisfied, Moody’s has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody’s being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated A3 or above by Moody’s, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 15.

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

**“Permanent Bearer Global Covered Bond”** means any Covered Bond issued in the form of a permanent bearer global covered bond.

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

**“Portuguese Securities Code”** means Decree-Law no. 486/99, of 13<sup>th</sup> November 1999, as amended.



**“Principal Amount Outstanding”** means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

**“Programme”** means the €7,000,000,000 covered bonds programme established on 30<sup>th</sup> April 2008 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

**“Programme Agreement”** means the agreement dated 30<sup>th</sup> April 2008 entered into between the Issuer and the Dealer, as amended.

**“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 Covered Bonds pursuant to Condition 9 (*Events of Default and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

**“Property”** means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and **“Properties”** means all of them.

**“Property Valuation”** means, in relation to any Property:

- (a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and
- (b) the amount determined by resorting to the use of adequate and recognised indexes or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

**“Prospectus Directive”** means Directive no. 2003/71/EC, of the European Parliament and of the Council, of 4<sup>th</sup> November 2003, and amendments thereto and Commission Delegated Regulation (EU) No 382/2014 of 7<sup>th</sup> March 2014.

**“Prospectus Regulation”** means Commission Regulation (EC) no. 809/2004, of 29<sup>th</sup> April 2004.

**“Rating Agencies”** means Moody's, S&P and Fitch and any other rating agency which has applied to be registered with the European Securities and Markets Authority under Regulation (EC) no. 1060/2009 of the European Parliament and of the Council of 16<sup>th</sup> September 2009 on credit rating agencies, as amended by Regulation (EU) no. 513/2011 of the European Parliament and of the Council of 11<sup>th</sup> May 2011, as applicable.

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

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

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

“**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 Covered Bonds Law and the Bank of Portugal Regulations;

“**Registered Covered Bond**” means any Covered Bond in registered form.

“**Regulation 5/2006**” means the regulatory notice (“*Aviso*”) no. 5/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“**Regulation 6/2006**” means the regulatory notice (“*Aviso*”) no. 6/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“**Regulation 7/2006**” means the regulatory notice (“*Aviso*”) no. 7/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

“**Regulation 8/2006**” means the regulatory notice (“*Aviso*”) no. 8/2006 issued by the Bank of Portugal and published on 11<sup>th</sup> October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

“**Regulation S**” means Regulation S under the Securities Act.

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

“**Reserved Matter**” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, substitution or conversion of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) 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 Covered Bonds and approved in accordance with the applicable provisions.

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

“**Series**” means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical

in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

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

“**Substitute Credit Institution**” means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

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

“**S&P**” Standard & Poor’s Credit Market Services Europe Limited.

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

“**Talon**” and “**Talons**” means the talons for further Receipts and further Coupons attached to the Definitive Bearer Covered Bonds on issue.

“**TARGET Day**” means any day on which the TARGET System is open.

“**TARGET System**” means the Trans-European Automated Real-time Gross Settlement Express Transfer System (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.

“**Temporary Bearer Global Covered Bond**” means any Covered Bond issued in the form of a temporary bearer global covered bond.

“**Terms and Conditions**” means in relation to the Covered Bonds, the terms and conditions to be endorsed on or applied to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

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

“**Treaty**” means the treaty establishing the European Communities, as amended by the Treaty on European Union.

“**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<sup>th</sup> July 2009, relating to undertakings for collective investment in transferable securities, as amended.

“**Value**” means:

- (a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;
- (b) in relation to any Other Assets:
  - (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;
  - (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

**REGISTERED OFFICE OF THE ISSUER**

**Banco BPI, S.A.**

Rua Tenente Valadim, no. 284  
Porto  
Portugal

**ARRANGER**

**Banco BPI, S.A.**

Rua Tenente Valadim, no. 284  
Porto  
Portugal

**COVER POOL MONITOR**

**Deloitte & Associados, SROC S.A.**

Sociedade de Revisores Oficiais de Contas  
Praça Duque de Saldanha 1-6 Piso  
1050-094 Lisbon  
Portugal

**DEALER**

**Banco BPI, S.A.**

Rua Tenente Valadim, no. 284  
Porto  
Portugal

**COMMON REPRESENTATIVE**

BNP Paribas Trust Corporation UK Limited  
55 Moorgate  
London EC2R 6PA

**AGENT**

**Banco BPI, S.A.**

Rua Tenente Valadim, no. 284  
Porto  
Portugal

**AUDITORS**

*To Banco BPI, S.A.*

**Deloitte & Associados, SROC S.A.**

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1050-094 Lisbon

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**LEGAL ADVISERS**

*as to Portuguese law*

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