



## CAIXA ECONÓMICA MONTEPIO GERAL

Caixa Económica Bancária  
(Savings Bank)

Entidade com o capital aberto ao investimento do público  
(Entity with capital open to public investment)

Registered Office: Rua Áurea, 219-241, Lisbon

Institutional Capital: €1,770,000,000

Registered with the Lisbon Commercial Registry Office under the sole commercial registration and tax payer number 500 792 615

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

Caixa Económica Montepio Geral (the “**Issuer**” or “**CEMG**”) is an authorised credit institution, savings bank (*caixa económica bancária*) under Portuguese Law, for the purposes of Decree-law 59/2006, of 20 March 2006 (as amended, the “**Covered Bonds Law**”). The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law.

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

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

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

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

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

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

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

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

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

This document comprises a base prospectus for the purposes of the Programme and of Article 5.4 of Directive No. 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as amended (the “**Prospectus Directive**”), to the extent implemented in the Relevant Member State) and of article 26 of the Commission Regulation (EC) No. 809/2004, as amended (the “**Prospectus Regulation**”). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange for the Covered Bonds to be admitted to the Official List and trading on its regulated market. Such approval relates only to the Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC, as amended, in any Member State of the European Economic Area. References in this Base Prospectus to Covered Bonds being “listed” (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the Irish Stock Exchange or other regulated market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. Covered Bonds may, after notification by the Central Bank of Ireland to the supervision authority of the Relevant Member States of the European Union, in accordance with article 18 of the Prospectus Directive, be admitted to trading on the regulated Market(s) of and/or be admitted to listing on stock exchange(s) of any other Member States of the EEA. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) no. 1060/2009, as amended (the “**CRA Regulation**”) will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended).

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

The date of this Base Prospectus for admission to trade on a regulated market is 27 April 2017.

*Arranger*

**NatWest Markets**

*Dealers*

**Merrill Lynch  
International**

**Citigroup**

**Commerzbank**

**Crédit Agricole CIB**

**Deutsche Bank**

**DZ BANK AG**

**J.P. Morgan**

**Landesbank Baden-  
Württemberg**

**Natixis**

**NatWest Markets**

**Société Générale  
Corporate & Investment  
Banking**

**UniCredit Bank**

## IMPORTANT NOTICE

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

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

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

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

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

The materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, the potential offering will be deemed to be made by such underwriter or such affiliate on behalf of Caixa Económica Montepio Geral (the "**Issuer**") in such jurisdiction.

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

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

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## **RISK FACTORS**

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

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

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

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

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

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

The volatility and disruption that the capital and credit markets have experienced in the last months, have reached extreme levels. The market disturbances have led to the failure of several substantial financial institutions, causing 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 its ability to sell assets at prices deemed acceptable.

Additionally, the market volatility produced downward pressure on stock prices and credit capacity for financial market participants generally. If those levels of market disruption and volatility continue or worsen, 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. Among other things, an inability to refinance assets on the balance sheet or maintain appropriate levels of capital to protect against deteriorations in their value could force the Issuer to liquidate assets held at depressed prices or on unfavourable terms.

These factors, notably the inability to refinance assets on the balance sheet or to maintain appropriate levels of capital, could have an adverse effect on the business, financial condition and results of operations of the Issuer.

### **Economic activity in Portugal**

As the Issuer currently conducts the majority of its business in Portugal, its performance is influenced by the level and cyclical nature of business activity in Portugal, which is in turn affected by both domestic and international economic and political events. Thus, a decline in Portuguese economic activity may have a material effect on the Issuer's financial condition and on the results of its operations.

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

Structural factors, such as the slow adaptation of some sectors to the increasing external competition, as

well as labour laws and the low levels of qualification of a material portion of the workforce, combined with a period of very poor economic growth and the implementation of measures to reduce public deficit concerning the Portuguese “Financial Assistance Programme” (“**FAP**”), have contributed to this rise in the unemployment rate, placing it at a historically high level.

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

The date of 17 May 2014 marked the conclusion of the FAP and constituted an important moment in the evolution of the Portuguese economy. During its period of implementation, there was progress in the correction of a certain macroeconomic imbalances and measures of a structural nature were put in place in many areas. Notwithstanding this progress, the return of normal conditions in market funding to the Portuguese economy will require sustained product growth. Such product growth will also be crucial to bringing about a reduction in the persistently high level of unemployment observed in the Portuguese economy.

Following its exit from the FAP, Portugal became subject to Post-Programme Surveillance (“**PPS**”) by the EC and ECB and to Post-Program Monitoring (“**PPM**”) by the IMF.

In relation to fiscal adjustment, according to INE’s second notification of 2016 Excessive Deficit Procedure (“**EDP**”) to Eurostat, the 2015 General Government (“**GG**”) deficit stood at 4.4 per cent. of GDP (€7.8bn), falling below the 2014 GG deficit of 7.2 per cent. of GDP (€12.4bn). Note that the 2014 GG deficit was revised in September 2015 (from -4.5 per cent. to -7.2 per cent. of GDP), mainly as a result of the classification of the capitalization of Novo Banco as capital expenditure. Excluding the BANIF resolution measure of 1.4 per cent. of GDP (€2.5bn), the 2015 GG deficit stood at 3.0 per cent. of GDP. Portugal recorded a primary surplus of 0.2 per cent. of GDP, improving by 2.5 p.p. compared to 2014. A sizable structural fiscal adjustment is at work, with a primary surplus excluding one-offs in 2014 (1.5 per cent. of GDP) and in 2015 (2.3 per cent. of GDP), for the first two times since 1997. The GG Gross Debt stood at 129.0 per cent. of GDP at the end of 2015 (130.6 per cent. of GDP in 2014).

According to the Budget Report for 2017 (“**SB 2017**”) projections, the debt-to-GDP ratio is expected to increase slightly to 129.7 per cent. of GDP in 2016, 0.7 p.p. higher than in 2015, according to Government forecast. In 2017, the debt-to-GDP ratio is expected to resume a downward trajectory, reaching 128.3 per cent. by the end of the year. Public debt is projected to continue a gradual declining trend. Given the current high level of government debt, Portugal still appears to face high fiscal sustainability risks in the medium-term. However, in the long-term, Portugal faces low fiscal sustainability risks, also due to the positive structural primary balances from 2012 (1.9 per cent.), with the government predicting, in the SB 2017, a maintenance at 2.7 per cent. in 2016 and a rise to 3.2 per cent. in 2017.

During the first three quarters of 2016, the net borrowing of the GG deficit decreased from 4.4 per cent. of GDP in 2015 to 2.5 per cent. in the first three quarters of 2016 (-3.4 per cent. in the same period of 2015). This improvement resulted from the combined effect of the 0.8 per cent. increase in revenues and a reduction of 1.1 per cent. of expenditure. This budget deficit of 2.5 per cent. of GDP in the first three quarters of 2016 is slightly higher than the 2.4 per cent. forecast for 2016 in the SB 2017. However, as a result of: i) the overall deficit of the GG on a cash basis in 2016 stood at €4,256 million, €497 million below the same period in 2015, and ii) the cash inflow resulting from the regularization program for tax and

social security debts (PERES), Montepio's deficit forecast for 2016 was reviewed from 2.4 per cent. to 2.1 per cent.. This Montepio's deficit forecast for 2016 of 2.1 per cent. is below Government's forecast (2.4 per cent. in SB 2017), as well as the 2.3 per cent. projected by the European Commission (EC), the 2.5 per cent. projected by the OECD and the 2.6 per cent. forecast by the IMF. The Government has also already admitted that the deficit could stay at 2.1 per cent.. For 2017, the Government (SB 2017) forecasts a further reduction to 1.6 per cent., a value that might be too optimistic compared to the Issuer's forecast of 1.8 per cent. (EC forecast a deficit of 2.0 per cent.; OECD and IMF forecast a deficit of 2.1 per cent.).

The SB 2017 was submitted to Parliament on 14 October 2016 and reports the following targets: i) a reduction of the GG deficit to 1.6 per cent. of GDP in 2017; ii) the primary surplus is expected to reach 2.8 per cent. of GDP; iii) the debt-to-GDP ratio should stand at 128.3 per cent. of GDP, 1.4 p.p. below 2016. The SB2017 foresees a number of fiscal measures which aim for a balance between the recovery in household's disposable income, an increased social cohesion and sustained economic growth. The main measures are: i) Public sector: full reinstatement of the wages and public employment control by hiring one employee per two that leave Public Administration; ii) Tax system: gradual removal of personal income tax (IRS) surcharge; a new state surcharge on property tax; a new tax on soft drinks and other sugary drinks and changes introduced to taxes on oil products; iii) Social policies: increase in a minimum of €10 of pensions between €275 and €628 in August 2017 and new single social benefit for disabled; iv) Efficiency gains: by carrying out a spending and revenue review.

Since the first quarter of 2013, Portugal has been experiencing an inversion of the decline in economic activity it had been undergoing since the end of 2010. Despite this, a small 0.1 per cent. reduction in GDP quarter-on-quarter ("**q-o-q**") occurred in third quarter of 2013 and, more expressively, a 0.5 per cent. contraction in the first quarter of 2014, the latter due to several temporary factors which negatively affected economic activity. In 2014, GDP expanded by 0.9 per cent., after three years of annual contraction.

In 2015, Portuguese economic activity continued to follow the gradual recovery path that started in 2013, with GDP growing by 1.6 per cent., accelerating from the 0.9 per cent. growth in 2014. Economic activity in 2015 was only supported by domestic demand, mainly reflecting growth in private consumption (+2.6 per cent., after having already grown +2.3 per cent. in 2014 and returned to growth after three years in contraction) and gross fixed capital investment (GFCF) (+4.5 per cent., after +2.3 per cent. in 2014 and left behind a succession of decreases dating back to 2009), with public consumption also increasing (+0.8 per cent., representing the first increase since 2.6 per cent. in 2009). The contribution of domestic demand to annual GDP growth increased to 2.6 p.p. in 2015 (+2.2 p.p. in 2014), due to the higher growth of final consumption expenditure, as investment slowed. On the other hand, net exports showed a new negative contribution to GDP growth in 2015 (-1.0 p.p. after -1.4 p.p. in 2014), reflecting a growth of imports (+8.2 per cent.) higher than exports (+6.1 per cent.). It should also be noted that there was a significant gain in the terms of trade, with the import deflator declining sharply as a result of lower energy prices. It should be noted that, despite the further decline in net exports in 2015, the economic recovery has continued to be sustained by exports, which ended 31.1 per cent. above pre-programmed adjustment levels last year (2010).

In 2016, GDP rose by 1.4 per cent. The growth in economic activity only reflected the contribution of domestic demand, which contributed a positive 1.5 p.p., with the slowdown in this contribution (+2.6 p.p. in 2015) reflecting the reduction in investment and, to a lesser extent, the slowdown of private consumption. Private consumption increased 2.3 per cent. (+2.6 per cent. in 2015) and public consumption 0.8 per cent. (the same as in 2015), while GFCF contracted by 0.3 per cent., having grown by a robust 4.5 per cent. in 2015 and change in inventories had a negative contribution of 0.1 p.p. after the zero contribution in 2015. Net exports, on the other hand, presented a slightly negative contribution of 0.1 p.p., penalizing economic activity for the third consecutive year, but at a much lower pace (-1.0 p.p. in 2015 and -1.4 p.p. in 2014), with this slight drop in net exports reflecting a 4.4 per cent. increase in exports (+ 6.1 per cent. in 2015) and also a 4.4 per cent. increase in imports (+ 8.2 per cent. in the previous year). It should be noted that, although net exports in 2016 have slightly further penalized growth, the economic recovery has continued to be sustained by exports, which ended last year 36.9 per cent. above pre-program adjustment levels (2010).



For 2017, we expect a GDP growth of 1.7 per cent., above Government's projection in SB 2017 (+1.5 per cent.). We anticipate investment (GFCF) will return to growth in 2017 (-0.3 per cent. in 2016), supported by funding from community funds (v.g. Junker Plan), some construction recovery and recovery of business investment in equipment. Private consumption is expected to grow again, but to a slight slowdown (+2.3 per cent. in 2016), driven by rising energy prices and the slowdown in consumption of durable goods (the 2015/16 pace is unsustainable and understandable only because it had been quite penalized during Portugal's double recession). Net exports are expected to make a slight positive contribution to growth after the slightly negative contribution (-0.1 p.p.) observed in 2016. Angola's economy is expected to grow more than in 2016 and not have such a negative effect on exports of goods. Exports of services, in particular tourism, should continue to grow at a steady pace, as a number of Portuguese destinations consolidate their prestige in international markets.

Risks to economic growth in 2017 are relatively balanced. The upside risks are: i) the low oil price (by 2016 it should be the lowest annual average in more than a decade); ii) the weak euro (in 2016 and 2017 above the 2015 average but historically low); iii) the expansionary monetary policy of the ECB; iv) the possibility that Spanish economy could continue to grow above the estimated: Spain represented in 2016 slightly more than a quarter of total exports of Portuguese goods (26.2 per cent. vs. 25.0 per cent in 2015), followed by France (12.6 per cent.), Germany (11.6 per cent.) and the United Kingdom (7.0 per cent.). On the other hand, the internal downside risks come from: i) the possibility of a return to political instability (due to the heterogeneity of the current politic majority); ii) difficult labor market situation; iii) the weakness of the financial system; iv) the additional consolidation objectives for public finances required by Brussels; v) the pressure on Portuguese debt yields (Portugal's spread closed the third quarter above the end of 2015), resulting from market fears about the Government's fiscal strategy. The external downside risks come from: i) Brexit's victory in the referendum in the United Kingdom (although we have already tried to incorporate these events in our forecasts, the associated uniqueness continues to bring risks to the forecast Portugal is particularly vulnerable to United Kingdom via tourism sector, given the high contribution of British tourists to the tourism balance); ii) uncertainties about US economic policy raised by Donald Trump's victory; iii) geopolitical uncertainty in the Middle East, Eastern Europe, Greece and the slowdowns in several emerging markets, such as China, Brazil and Angola (in 2016, Portuguese exports to this country fell by around €0.6bn, after having already dropped €1.1bn in 2015, with the respective weight of Portuguese exports decreasing from 6.6 per cent. in 2014 to 4.2 per cent in 2015 and 3.0 per cent. in 2016).

The average rate of change of the Portuguese consumer price index ("CPI") (Source: National Statistics Institute (INE), increased to 0.6 per cent. in 2016, after 0.5 per cent. in 2015 and minus 0.3 per cent. in 2014, which is the second lowest value, surpassed only by the fall of 0.9 per cent. registered in 2009, following the collapse in oil prices. The core inflation rate, which excludes unprocessed food and energy, was 0.7 per cent., the same value as in the previous year and afterwards moved from 0.1 per cent. in 2014 to 0.7 per cent. in 2015. As core inflation stabilized, the increase of the average rate of change of the CPI between 2015 and 2016 was influenced by the evolution of prices of energy products. In fact, the annual average rate of change of this aggregate was less negative in 2016, moving from -3.6 per cent- in 2015 to minus 1.8 per cent.. The prices of unprocessed food decelerated in 2016, although maintaining a positive annual average rate of change which attained 1.6 per cent. in 2016 (+1.9 per cent. in 2015).

In 2016, the annual average rate of change of the Portuguese harmonized consumer price index ("HCPI") was 0.6 per cent. (+0.5 per cent. in 2015). For 2017, the Government projects in the SB 2017 an increase of the average rate of change of the HCPI to 1.5 per cent. (after a projection of +0.8 per cent. to 2016), above our actual projections (+1.3 per cent.). The limited change in prices reflects the maintenance of low inflationary pressures from moderate global recovery and on-going adjustment in the Portuguese economy. In addition to a recent improvement in the labour market, there has been a moderate growth in private sector salaries which has, in turn, limited the increase in unit labour costs. Our forecast of price developments for 2017 reflects inflationary pressures that are progressively increasing due to the recovery of the international economy and the Portuguese economy, as well as the positive impact of the monetary policy measures adopted by the ECB. Prices of energy goods are expected to increase in 2017, after a

decline of around 1 per cent. in 2016. Excluding energy goods, prices are expected to accelerate moderately over the projection horizon. This scenario underlies an increase in import prices excluding energy goods in 2017, after their decrease in 2016, in the context of the annual average appreciation of the euro. In addition, within a framework of gradual improvement in the labor market situation and recovery of productivity growth, a moderate increase in real wages per employee in the private sector is expected to accelerate slightly over the projection horizon. It should be noted that in 2016 the evolution of the nominal wage per worker is influenced by the increase of 5 per cent. of the minimum wage. The unit costs per worker, both in the private sector and in the total economy, should increase in a contained way over the projection horizon. In addition, the hypothesis is that, in 2016, the fall in the price of oil in euros will only partially be reflected in the evolution of the final consumer price excluding taxes, in line with that observed in 2015. After a differential of inflation in relation to the negative Euro Area in 2013, of 1.0 p.p., it was observed a reduction of this differential in 2014, to -0.6 p.p., then in 2015 it was completely reversed and became positive (+0.5 p.p.).

In 2016 it was recorded a new positive differential (+0.4 p.p.) only slightly lower than in 2015 (inflation in the Euro Area was +0.2 per cent. in 2016). Our forecast is that this differential will be more than reversed in 2017 and should be again negative, since we are now forecasting inflation of 1.6 per cent. for the Euro Area, and then be zero in 2018, given that we have projected a slight inflation in the region in that year, to 1.5 per cent. It should be emphasized that, in the context of a monetary union, it is to be expected that the countries in structural adjustment will show lower than average inflation rates for the remaining members, which implies gains in terms of price competitiveness in these countries.

The drastic deterioration in the labour market over the last few years was reflected in, and subsequently amplified by, the country's economic recession. The decline in investment also detrimentally impacted the unemployment rate. Despite this trend continuing over the first half of 2013, the unemployment rate began to improve, shifting from the maximum of 17.5 per cent. recorded in the first quarter of 2013, according to the quarterly series published by Banco de Portugal started in 1977, to 12.2 per cent. in the last quarter of 2015. The latter representing a slight increase after having reached 11.9 per cent. in the second and third quarter of 2015, which is the lowest rate since the last quarter of 2010 (11.1 per cent.), that, albeit still at an objectively high level, remained distant from the maximum of 17.5 per cent. On an annual average, the unemployment rate decreased to 12.4 per cent. in 2015, from 13.9 per cent. in 2014 and 16.2 per cent. in 2013, and decreased again in 2016, to 11.1 per cent., slightly above the 11.0 per cent. projected by the IMF, and slightly below the 11.2 per cent. projected by the Government (SB 2017). Unemployed population, estimated at 573,000 people in 2016, decreased by 11.4 per cent. in relation to the previous year, while employed population increased by 1.2 per cent. (to 4,605,200 people).

In January of 2017, the unemployment rate stabilized in 10.2 per cent., a minimum since March 2009 (10.0 per cent.) and after three consecutive descents (-0.3 p.p. in December). Looking ahead, we expect a further reduction of the unemployment rate in 2017, to 10.3 per cent., below the forecast by the IMF (10.6 per cent.) and in line with the forecast by the Government (10.3 per cent.), and a further reduction in 2018, to 9.8 per cent..

The Portuguese economy's current situation continues to reveal the risks related to fiscal consolidation and the lack of availability of credit. These risks threaten to deprive of funding even well-established companies in the country. Such companies have been important to an economy facing weak internal demand.

Despite signs of recovery, further deterioration in the external environment could constrain the commitment that the Portuguese authorities have made to achieve the goals and measures agreed at budget level, which may adversely affect the desired sustained economic recovery and Montepio's activity and performance.

Portugal is currently rated investment grade by one of the four main rating agencies and has a rating below investment grade in the other three main agencies. The analysis carried out by the IMF and the European Commission pointed out that the public finances are sustainable, assuming that primary surpluses are

reached. Also the Montepio's internal model of replication of ratings agencies suggests upgrades to investment grade.

In October 2016, DBRS maintained the rating and outlook for the Portuguese Republic. The decision of the Canadian agency was anticipated by the market and allows the Portuguese debt to continue to be accepted for ECB's quantitative easing (QE) monetary policy. However, in the case of a possible future DBRS downgrade of the rating of the Portuguese Republic to below investment grade, there is a risk that Portuguese sovereign debt is no longer eligible for the ECB purchase program nor for the Eurosystem refinancing operations, resulting in a potential reduction of available funding for the Portuguese banking system and the Issuer. Upon such an event, the increasing perceived credit risk for the Portuguese Republic and the close link between the sovereign's rating and the local financial institutions' ratings might result in a further shortfall in the available funding for the Portuguese banks and increase the borrowing costs. These circumstances might produce a negative impact in the Issuer's results, business activity and financial condition.

Portugal climbed 5 positions in the Index of Economic Freedom 2015, becoming the 64th freest economy out of a total of 178 countries. In 2016, Portugal maintains the 64th place. According to the index prepared annually by The Heritage Foundation and The Wall Street Journal, the score of Portugal decreased 0.2 points compared to 2015 to 65.1 points, but still remains above the world average, which is 60.7 points. Since 2012, it gained 2.1 points and climbed 5 positions in the ranking. Improvements in 7 of the 10 factors were led by the flexibility of labor legislation, monetary freedom and freedom from corruption. Conditioning further rise of Economic Freedom has been the indicator on public spending, reflecting the rise in public debt.

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

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

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

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

Therefore, the Issuer has implemented the Pre-arrears Action Plan (PARI), with new rules, procedures and measures which allow for:

- Early detections of signs of delinquency risk, implementing systems to identify default risk;
- Control of borrowers who report financial difficulties;
- The adoption of measures to prevent arrears;
- The evaluation of evidence of default risk;
- Repayment solutions proposals, whenever the risk of failure is caused by temporary and specifically defined circumstances;
- Evaluation of the financial capacity of the client;

- Contract restructuring or credit agreements consolidation proposals, in cases where the risk of default is assumed to be permanent.
- The Issuer has also created an extrajudicial settlement procedure for borrowers in default situation (PERSI), with several measures intended to automatically detect customers in default and propose timely contractual changes and restructurings, including:
  - The notification of customer arrears and amounts due, to the borrower and guarantors;
  - Registration of the reasons for non-compliance and assessment of the financial capacity of the client;
  - Reporting clients about the evaluation of failure
  - Contractual remedies proposals, adequate to each borrower financial situation.

Also, under PERSI, as a general rule, credit institutions may not declare anticipated maturity or take any legal action before 90 (ninety) days since the customer is under PERSI, which may only occur if the customer is in delay.

Therefore, PERSI may bear consequences to the recovery of the assets provided in the asset pool.

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

#### **Legislation on calculation of default interest**

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

Some of the provisions described in the preceding paragraph limit the rights of the Issuer, as well as credit institutions generally, in connection with a default of their clients, hence having a negative impact on the credit transferred to the asset pool.

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

Bank of Portugal has issued guidelines which addressed the matter of how the negative Euribor shall be reflected in existing finance agreements whose interest rate is calculated based on Euribor.

Those guidelines were issued by Bank of Portugal, on 30 March 2015, through the Circular Letter (*carta circular*) no. 26/2015/DSC (hereinafter “**CL 26/2015**”). In the view of the national central bank: (i) in relation to existing financing agreements which have not contemplated a regime applying in a scenario of negative Euribor, the credit institutions shall not construe their clauses as implicitly entitling them to limit the effects of such negative Euribor; (ii) in the future, credit institutions are prohibited from setting forth any floors in contracts entered into with the clients, with a view to limiting the effects of negative Euribor in the contractual interest rate; (iii) nonetheless, credit institutions and their counterparties under the agreements are allowed to take certain (not defined in detail) precautionary measures in order to address the risk of negative Euribor.

The Bank of Portugal's guidelines (*Carta-Circular*) are not mandatory in nature, however they are usually followed by all regulated credit and financial entities, including in relation to all credit and financing agreements with consumers or other banking customers, including mortgage loans, financial leasing and

factoring, being also likely to influence the decisions of courts.

This matter is still under discussion, and the Bank of Portugal itself advocates changing national legislation, thereby setting the minimum limit of the interest rate at zero.

CL 26/2015, if upheld by the courts or followed by the Issuer, may have a negative impact in relation to the interest accruing on the housing loans forming part of the Cover Pool, insofar as a variable interest rate has been agreed under such loans, and the relevant Euribor rate is below zero.

### **Regulation of Portuguese Financial Industry on Prudential Matters**

The Issuer operates in a highly regulated industry. The banking activities of the Issuer are subject to extensive regulation by the ECB, the European Banking Authority (“EBA”) and the Bank of Portugal, mainly relating to liquidity levels, solvency and provisioning, and by the CMVM.

The Portuguese financial industry has been reacting to a steady stream of changes in the regulatory and legal framework since the early 1980s. The process of deregulation and liberalisation began in 1983 and was followed by the privatisation process (initiated in 1989) and the opening of the banking system to foreign competition. Restrictions on capital movement have been gradually lifted as Portugal implemented legislation bringing Portuguese banking regulations in line with EC legislative practice. In particular, the General Regime for Credit Institutions and Financial Companies (“RGICSF”, enacted by Decree Law no. 298/92, of 31 December) made a noticeable impact on the Portuguese financial sector by introducing a comprehensive regulatory framework in Portugal in line with EC directives, abolishing the distinction between investment and commercial banks, establishing prudential and supervisory rules, revising regulation of foreign banks operating in Portugal and Portuguese banks operating abroad and creating a deposit guarantee fund in order to protect depositors. In January 2005, the majority of the Portuguese financial sector, representing more than 84 per cent. of total liquid assets, adopted the IAS/IFRS accounting rules.

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

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

Directives 2004/39/EC, 2006/73/EC and Regulation 1287/2006 on markets and financial instruments (“MiFID”) and Directives 2004/109/EC and 2007/14/EC (“Transparency Directives”) also entered into force in 2007. This legislation has a two-fold aim of protecting investors and ensuring the smooth operation of the securities market. The legislation was necessary to ensure the transparency of transactions and that the rules laid down for that purpose apply to investment firms when operating in markets.

Following the publication of Directive 2009/111/EC, of the European Parliament and the Council, of 16 September 2009, which amended Directives 2006/48/EC and 2006/49/EC, amendments were also introduced in Decree Law no. 103/2007 and Decree Law no. 104/2007.

During 2009 and 2010, the following Directives were implemented: (i) Directive 2007/44/EC, amending several Directives regarding procedural rules and evaluation criteria for the prudential assessment of acquisitions and increased holdings in the financial sector; (ii) Directive 2009/27/EC (amending certain

Annexes to Directive 2006/49/EC) regarding technical provisions concerning risk management; and (iii) Directive 2009/111/EC regarding banks affiliated with central institutions, certain own funds items, heightened exposure, supervisory arrangements and crisis management.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules text, providing for the details of global regulatory standards on bank capital adequacy and liquidity ratios, setting out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio and the establishment of two global liquidity standards.

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

In 2011, the European authorities approved a new set of supervision legislation for the banking sector which includes the creation of a EBA charged with the development of a single rulebook for banks in the EU, while national authorities remain responsible for the supervision of financial institutions. At the end of 2011, the European Central Bank (“**ECB**”) announced measures to support bank lending and money market activity, including the reduction of the reserve ratio from 2 per cent. to 1 per cent..

In Portugal, within the developments of the financial and sovereign crisis and the FAP requested by the national authorities in April 2011, a new set of legislation and activity requirements were imposed to the Portuguese financial sector.

The FAP set targets for deleveraging and increasing capital and liquidity in the financial system in general and the banking sector in particular. In order to achieve these targets, the eight largest banking groups were required, by Bank of Portugal, to draw up a Funding & Capital Plan, with regular updates. Regarding the system's liquidity, the Bank of Portugal has promoted an orderly deleveraging of the banking sector and reduction of banks' funding from the ECB aimed at more stable and sustainable funding models in the long term. Regarding solvency, since 2010 the Bank of Portugal has adopted several measures towards preserving adequate capital ratios, which included recommending the sale of assets, imposing capital increases, limiting the distribution of dividends and setting more stringent capital requirements, which anticipated some of the main Basel III recommendations.

In 2013, the European Authorities approved a new legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework, replacing the former Capital Requirements Directives (2006/48/EC and 2006/49/EC): Regulation 575/2013 of the European Parliament and of the Council of 26 June establishing new and detailed prudential requirements that institutions need to respect (the Capital Requirements Regulation or “**CRR**”) and Directive 2013/36/EU of the European Parliament and of the Council of 27 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions (the Capital Requirements Directive IV or “**CRD IV**”). The package entered into force on 1 January 2014, while some of the new provisions are being phased-in between 2014 and 2019.

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

On 23 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 it was finished in November 2014. The reference ratio value for such assessment was 8 per cent. Common Equity Tier 1, according to the CRD IV definitions taking into account transitional arrangements.

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

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

With reference to liquidity risks, the Basel III recommendations transposed into CRD IV imply the implementation of the liquidity coverage ratios known as Liquidity Coverage Ratio (“**LCR**”) (short term ratio in a severe stress scenario) and Net Stable Funding Ratio (“**NSFR**”) (medium term). The LCR was introduced gradually starting from October 2015 with a minimum level of 60 per cent. and will be fully implemented by January 2018 comprising the minimum required rate of 100 per cent., one year earlier than the Basel Committee had recommended. The NSFR (minimum of 100 per cent.) was to be implemented in 2018 but this date has recently been postponed to 2019. As at 30 September 2016, the LCR stood at 109.0 per cent. (111.4 per cent. as at 31 December 2015), above the minimum 70 per cent. required level.

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

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

These changes may have a negative impact on the Issuer's activity results.

Regarding capital ratios, according to the CRR and Bank of Portugal Regulations, the banks are subject to a minimum compliance (Core Tier 1 of 4.5 per cent., Tier 1 of 6 per cent. and a Total Capital Ratio of 8 per cent.) with gradually increasing buffers until 1 January 2019.

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-weighted 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. The systemic importance of the Issuer shall be determined by the supervisor; the Issuer has been classified as other systemic importance institution (O-SII).

These buffers, apart from the macroprudential systemic risk, have been gradually applied since 2016. The Member States may anticipate their application.

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

In December 2013 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 with from the 1 January 2014 onwards (Regulatory Notice (“Aviso”) 6/2013).

In September 2015 the Bank of Portugal has determined a conservation buffer of 2.5 per cent. (Regulatory Notice (“Aviso”) 1/2015) to be applied from January 2016 onwards. From January 2016 onwards, the

minimum capital ratios to be accomplished should be 7 per cent. for Common Equity Tier 1, 8.5 per cent. for Tier 1 and 10.5 per cent. for total Capital. On 31 May 2016, Bank of Portugal issued Notice 6/2016 revoking Notice 1/2015, which determined the conservation buffer to be 0.625 per cent. in 2016 with an increase of 0.625 per cent. per year until 2019. Bank of Portugal also determined a countercyclical capital buffer rate of 0 per cent. and a systemic risk buffer of 0.125 per cent. and 0.25 per cent. to be accomplished by 2018 and 2019, respectively.

As of 30 September 2016, the Total Capital ratio of the Issuer, on a consolidated basis (phasing-in), stood at 11.0 per cent. (9.7 per cent. as of 31 December 2015) and the Common Equity Tier 1 ratio was 10.4 per cent. (8.8 per cent. as of 31 December 2015). Considering the full implementation of CRD IV/CRR, Total Capital ratio would stand at 8.9 per cent. (7.7 per cent as at 31 December 2015) and Common Equity Tier 1 would reach 8.2 per cent. (6.7 per cent. as of 31 December 2015).

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

On 23 November 2016 the European Commission presented a proposal with a comprehensive package of reforms to further strengthen the resilience of European Union (EU) banks. These proposals aim to complete the reform of the financial regulatory system to bring back financial stability and market confidence by implementing some outstanding elements, which are essential to further reinforce bank's ability to withstand potential shocks. The proposals also fine-tune some aspects of the new regulatory framework where necessary to make it more growth-friendly and proportionate to banks's complexity, size and business profile. It also includes measures that will support SMEs and investment in infrastructure.

Such proposal amends the following pieces of legislation:

- a. The Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) which were adopted in 2013 and which set out prudential requirements for credit institutions and investment firms and rules on governance and supervision;
- b. The Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) which were adopted in 2014 and which spell out the rules on the recovery and resolution of failing institutions and establish the Single Resolution Mechanism.

These legislative proposals will now be submitted to the European Parliament and to the Council for their considerations and adoption.

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

The Issuer has adopted Strategic Guidelines for the period 2016-2018 for the strengthening of the capital ratios, as stated in the Funding and Capital Plan submitted to the Bank of Portugal. This plan aims to achieve capital buffers that allow capital ratios to be set in excess of the capital requirements regulation (CRR) and directive (CRD IV) by 2018. See *Description of the Issuer*.

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

### **Regulators monitoring the activity of the Issuer**

The Issuer is subject to supervision by the Bank of Portugal and by the CMVM, including, as an insurance intermediary (type 1), to supervision by the Insurance and Pension Funds Supervisory Authority ("ASF"), as well as to the supervision of other competent regulators of jurisdictions in which it operates.



Changes to supervisory rules and regulations in respect of the Issuer's activities, in particular in Portugal, may have a negative impact on the Issuer's business, the goods and services it offers or the value of its assets. Although the Issuer cooperates closely with the regulators and continuously monitors the evolution of the regulatory rules to which it is subject, future regulatory changes, changes in tax laws or other alterations may be unpredictable and are outside the Issuer's control. Further changes or difficulties in the interpretation of or compliance with new tax or variations in the interpretation of laws and, regulations and guidelines might negatively affect the Issuer's business, financial condition and results.

### **Legislation on Bank Recovery and Resolution**

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

Such resolution framework has been further amended by Decree Law no. 114-A/2014, of 1 August, Decree Law no. 114-B/2014, of 4 August, and Law no. 23-A/2015, of 26 March, which have transposed the Directives 2014/49/UE of 16 April 2014 on deposit guarantee schemes and 2014/59/UE of 15 May 2014, which establishes a framework for the recovery and resolution of credit institutions (the “**EU Crisis Management Directive**” or “**BRRD**”).

Notice of Banco de Portugal (“*Aviso*”) No 1/2015 of 7 September, was recently revoked by the Notice of Banco de Portugal (“*Aviso*”) No 6/2016, of 31 May 2016, which regulated the implementation of the capital conservation buffer established in Article 138-D of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, which is aimed at making financial institutions more resilient, by increasing their capacity to absorb unexpected losses, thus contributing to the maintenance of financial stability.

A Single Resolution Mechanism (“**SRM**”) has been introduced including a single resolution board (“**SRB**”) and a single fund for the resolution of banks. The requirements of the SRM are set out in the Single Resolution Mechanism Regulation (Regulation (EU) No. 806/2014 of 15 July 2014) (the “**SRM Regulation**”) and the Banking Recovery and Resolution Directive (Directive 2014/59/EU) (“**BRRD**”).

The SRM Regulation, subject to some exceptions, applies from 1 January 2016. The SRB is fully operational from January 2016. The BRRD has been implemented in Portugal pursuant to the European Union (Bank Recovery and Resolution) Regulations 2015 (the “**BRRD Regulations**”). The BRRD Regulations, other than regulations 79 to 94, came into effect on 15 July 2015. Regulations 79 to 94 of the BRRD Regulations came into effect on 1 January 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The single resolution fund is financed by bank levies raised at national level. In 2015, following the establishment of the European Resolution Fund, the Issuer had to make an initial contribution in the amount of € 8.5 million. The European Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015. The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. Among other provisions, the BRRD requires banks to produce a full recovery plan that sets out detailed measures to be taken in different scenarios when the viability of the institution is at risk. Furthermore, the national regulator may require the Issuer to make changes to the legal structure pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation. Therefore, the Issuer cannot anticipate if additional costs might be due and for which proportion, as well as if there could be an impact on the Issuer's results and financial position.

Banks subject to the BRRD may be required to contribute to *ex ante* funds and in particular to the European Resolution Fund. The periodic contributions of the participating institutions in the European Resolution Fund should be (i) distributed proportionally among participating institutions, according to the respective level of financial liabilities, excluding own funds and deducting deposits guaranteed by Deposit Guarantee

Fund (the “Reserve Base”), adjusted by the institution’s risk profile and regarding the economic outlook as well as the contribution’s impact in the institution and (ii) determined by the application of a contributory rate (proposed by the European Resolution Fund and established by the Bank of Portugal) to the Reserve Base. The Fund will be built up during the first eight years (2016-2023) and shall reach at least 1% of deposits guaranteed by Deposit Guarantee Fund (approx. €55bn in 2024). Where *ex ante* contributions are insufficient to cover the losses or costs incurred by the use of the Fund, additional *ex post* contributions should be collected, which, therefore, may have adverse effects in the Issuer's results, business activity and financial condition.

The reorganization regime previously in force governing credit institutions was extensively reviewed and was indeed replaced by a new approach by the Bank of Portugal as regards the intervention on credit institutions and investment firms in financial distress. The measures set out in the new regime aim at recovering or preparing the orderly winding-up of credit institutions and certain financial companies in situations of financial distress. The new toolbox includes three stages of intervention by the Bank of Portugal: preparatory and preventive measures, prior 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.

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

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

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

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

An institution is deemed to be insolvent for the purposes of adoption of resolution measures, if one of the following situations occurs, or when sufficient reasons exist to suggest that they may occur in the short run: the institution (i) ceases to comply with the requirements for preserving the banking license, including if it incurs in losses capable of significantly absorbing its own funds; (ii) the institution's assets have become lower than its liabilities; (iii) the institution is unable to meet its obligations; (iv) the institution is in need of

extraordinary public funding, save when such assistance is aimed at preventing or containing a serious economic crisis and preserve financial stability and fulfils certain other criteria (Article 145-E of RGICSF).

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

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

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

Furthermore, to the extent as necessary in order to ensure the effectiveness of a resolution measure, the Bank of Portugal may exercise *inter alia* the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution;

(v) exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to debt instruments and other eligible claims held vis-à-vis the institution, such as clauses on maturity dates and payable interest; (v) liquidation and termination of financial agreements and derivative agreements; (vi) suspension of the negotiation of a financial instrument (Article 145-AB of RGICSF).

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

According to Article 145-AC of the RGICSF, when the Bank of Portugal decides on the partial transfer of rights and obligations of a distressed institution, transition bank or asset management vehicle in favour of another entity, or when such regulator decides to amend the terms and conditions under a contract to which such institution is a party (or transfer the rights and obligations thereunder to a third party), such regulator is not allowed to (a) transfer partially the rights and obligations under covered notes and structured financing arrangements to which the credit institution is a party, which involve the creation of security by a party under the agreement or third party, including securitization transactions and transactions where a cover pool is used with a view to secure the whole debt until the maturity date of the notes, and a legal privilege is attached to the asset pool in order to secure the claims in relation to payment of principal and interest; (b) modify or extinguish the rights and obligations in relation to the notes and contracts described

in the point (a).

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

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

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

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

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

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

- (a) determine the full transfer of all the assets, liabilities and off balance sheet items of the Issuer, in which case the whole of the rights and obligations under the Programme (including the Programme Documents) and any Covered Bonds issued thereunder shall be transferred to another duly licensed entity or a bridge institution or segregated and transferred to an asset management vehicle;
- (b) determine the partial transfer of all the assets, liabilities and off balance sheet items of the Issuer, in connection with such partial transfer, and that the obligations and liabilities under the Programme (including the Programme Documents) and any Covered Bonds issued thereunder remain as a liability of the Issuer: in such instance, depending of the financial condition and other factors relating to the Issuer, the Bank of Portugal may additionally revoke the license of, and determine the opening of liquidation proceedings against, the Issuer (for a discussion on the implications of the Issuer's liquidation and insolvency, please refer to the section headed “Insolvency of the Issuer”).
- (c) determine that the creditors of the Issuer are subject to bail-in measures: in such case, it is expressly referred in the RGICSF that the adoption of such type of resolution tool shall not encompass obligations having the benefit of security (“*garantia real*”) over the assets of the Issuer up to the amount of the security assets; conversely, if such amount of such obligations exceeds the value of the assets charged as security thereof, then such excess may be affected by the relevant bail in measures.

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

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

**The Issuer will have to meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or that are imposed on it under other applicable compensation schemes relating to banks or other financial institutions in financial difficulties. In addition, the challenge of meeting this degree of regulatory change will place a strain on the Issuer’s resources, particularly during a period of significant organisational transformation. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands increases the regulatory risk of the Issuer. These may also impact significantly on the Issuer’s future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements. The resolution measure applied to Banco Espírito Santo S.A. may prejudice investors’ and economic agents’ positive perception of the Portuguese financial system and the Issuer as a participant thereto**

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

The share capital of the Novo Banco in the amount of €4.9 billion was fully underwritten by the Resolution Fund. Of this, €3.9 billion come from a loan granted by the Portuguese State (which, in turn, was financed with available funds under the FAP) to be repaid and remunerated by the Resolution Fund, primarily from the proceeds obtained with the sale of the Novo Banco. The remaining amount was funded by the own funds of the Resolution Fund and from loans granted by the credit institutions, including the Issuer, participating in the Resolution Fund, in the total amount of €700 million. The Issuer's share of this loan was €70 million.

On 29 December 2015 the Bank of Portugal approved a number of decisions that complete the resolution measure applied to Banco Espírito Santo, S.A. (“BES”).

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

In addition to the measure mentioned above, Bank of Portugal made a final adjustment to the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, namely including:

- a) Clarification that no liabilities have been transferred to Novo Banco that were contingent or unknown on the date the resolution measure was applied to Banco Espírito Santo, S.A.;
- b) Retransfer to Banco Espírito Santo, S.A. of the shareholding in BES Finance, which is necessary to ensure full compliance with and application of the resolution measure as regards the non-transfer to Novo Banco of subordinated debt instruments issued by Banco Espírito Santo, S.A.;
- c) Clarification that it is the Resolution Fund's responsibility, upon the fulfilment of certain conditions, to make neutral for Novo Banco – through an appropriate measure – potential negative effects of

future decisions, resulting from the resolution process and giving rise to liabilities or contingencies.

The future contributions remain uncertain and will largely depend upon the consideration to be paid in the ongoing process of sale of Novo Banco. It is impossible to predict the extent of potential consequences to the Issuer arising therefrom.

There is no estimate on the amount of potential losses arising from the sale of Novo Banco, S.A. (or from the sale of some assets of Novo Banco, S.A.) or from the potential litigations associated with the resolution decision. According to publicly available information, the volume of litigation associated with this process is high, not being duly clarified the amount of losses the Resolution Fund may incur as a result of these litigations or with the sale of Novo Banco, S.A. (either in its entirety or resulting from the sale of some assets). An adverse outcome might negatively affect the Issuer's results, business activity and financial condition.

Under the applicable law, if at the conclusion of the liquidation of Banco Espírito Santo, S.A., the creditors whose claims have not been transferred to Novo Banco S.A. bear more losses than those that hypothetically would incur if the bank had entered into liquidation immediately before the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. Deloitte Consultores, S.A. was the independent entity appointed by Bank of Portugal to perform the assessment of the hypothetical liquidation proceeds. On 6 July 2016, it was announced that the final report was received by Bank of Portugal on 4 July 2016. If the recovery rates presented in the report become legally binding and if they result higher than those actually observed at the end of the liquidation of Banco Espírito Santo, S.A., the Resolution Fund may request additional contributions from the Portuguese banks, including the Issuer, in order to pay the difference. Such an event would have an adverse effect in the Issuer's results, business and financial condition.

The sale of Novo Banco, S.A. failed to occur in the twelve months following the resolution as initially expected. The possibility of further delays in the sale process will maintain the Resolution Fund as the sole equity provider for Novo Banco, S.A., for a longer period of time. During this period, if Novo Banco, S.A. is required to increase capital in order to ensure that all capital ratios are met, additional contributions for the Resolution Fund might be required from the Portuguese banks, including the Issuer. This scenario would have an adverse effect in the Issuer's results, business and financial condition.

The Issuer's share in the Resolution Fund will vary from time to time according to its own liabilities and funds, when compared to the other participating institutions comprised in the Resolution Fund.

Bank of Portugal *Aviso* 1/2013 (as amended by *Aviso* 14/2014) sets forth the methodology to calculate periodic contributions to the Resolution Fund. Such methodology consists in the application of a contributive rate to the end of month outstanding balance of liabilities, deducted by own funds and deposits already included in the Deposit Guarantee Fund.

The rate to be applied is set by a regulatory instruction issued by Bank of Portugal. The rate was determined to be 0.02 per cent. in 2016 and 0.029 per cent. in 2017, as defined in the *Instrução* 19/2015 and *Instrução* 21/2016, respectively, both issued by the Bank of Portugal.

Pursuant to Decree-Law 24/2013, of 19 February, which establishes the calculation method of the initial, periodic and special contributions of the participating institutions to the Resolution Fund, the Issuer estimates, on the date hereof, that its participation in the Resolution Fund should be around 6 per cent. This is an estimation only as the determination of the exact participation is influenced by a number of factors which render impossible a more accurate exercise. The participation of the Issuer in the €700 million loan corresponded to 10 per cent..

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

On 20 December 2015 the Bank of Portugal applied a resolution measure to Banco Internacional do

Funchal, S.A. (“**Banif**”), which notably resulted in the acquisition by Banco Santander Totta, S.A. of a set of rights and obligations, that constituted assets, liabilities, off balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect. This operation involved an estimated public support of €2,255 million to cover future contingencies, of which

€489 million are supported by the Resolution Fund and €1,766 million directly by the Portuguese State, as a result of the definition of the assets, liabilities, off balance sheet items and assets under the management of Banif perimeter agreed by and between the Portuguese and European authorities and Banco Santander Totta, S.A. to be sold in this context.

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

### **Issuer as an O-SII**

On 29 July 2016, and subsequently confirmed on 30 November 2016, the Bank of Portugal decided to apply a two-year phase-in regime of the other systemically important institution (O-SII) buffer published on 29 December 2015 to the identified Portuguese O-SIIs. The timeline for the phase-in of the O-SII buffer is 50% as of 1 January 2018 and 100% as of 1 January 2019.

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

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

The O-SII buffer identified for the Issuer is 0.125% as of 1 January 2018 and 0.25% as of 1 January 2019.

### **Reliance in Montepio Geral Associação Mutualista as equity provider**

Montepio was established by Montepio Geral Associação Mutualista (“**MGAM**”) in 1844, as an affiliated entity (*entidade anexa*) of MGAM. Montepio must therefore pay its annual net profits (subject to any deduction required by Montepio’s Articles of Association) to MGAM, thereby enabling MGAM to meet its own objectives as a mutual benefit association. MGAM is a “private institution of social support” (i.e. a mutual benefits association) whose principal purposes are to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them.

Montepio basically relies on MGAM as an almost exclusive equity provider. MGAM can only provide equity to Montepio by increasing its institutional capital (currently €1,770,000,000) or by subscribing securities (*unidades de participação*) representing its participation fund (*Fundo de Participação da Caixa Económica Montepio Geral*). MGAM has subscribed €200,000,000 of these securities in a private placement on June 2015.

Montepio issued € 200,000,000 of securities (*unidades de participação*) representing its participation fund (*Fundo de Participação da Caixa Económica Montepio Geral*) through a public offer in December 2013.

MGAM's ability to provide further equity to Montepio may be impaired by a number of factors such as its own financial condition or potentially new applicable regulatory rules (e.g. concentration ratios).

The inability of MGAM to capitalise Montepio in the future may have a material adverse effect on the Issuer's condition, ability to pursue its business and results of its operations.

The transformation of Montepio into a Public Limited Company (please refer to section “*Change in legal*”

*framework of the Issuer*”) will allow other potential shareholders to participate in Montepio’s capital. If a material adverse effect on the Issuer's condition, ability to pursue its business and results of its operations is to occur in the future, in a scenario where MGAM is not in a position to capitalise Montepio, the entry of other shareholders in Montepio’s capital may not be sufficient to overcome capital requirements.

#### **The performance of MGAM may adversely affect the Issuer's activity**

Montepio was established by MGAM as a dependent entity of MGAM with a view to paying MGAM its annual net profits (as per Montepio's Articles of Association) and to enable MGAM to meet its own objectives as a mutual benefit association. As such, all of the 632,931 members of MGAM (as of 31 December 2015) are Montepio’s customers, corresponding to 46.2 per cent. of the Issuer's individuals customer base.

MGAM's main source of funds is membership revenues and the subscribed members’ savings plans. These funds are invested by MGAM in a diversified set of financial and non financial assets, including different types of securities and equity participations, (including its interest in Montepio) and properties. Among these investments, and as of 31st December 2015, MGAM held €1.3 bn. of notes issued by Montepio, which represents ca.6.2 per cent. of Montepio’s liabilities.

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

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

MGAM is currently supervised by the Ministry of Solidarity, Employment and Social Security in accordance with the provisions set forth in the Mutual Associations Code (Código das Associações Mutualistas).

As a consequence of European legislation, it is possible that MGAM becomes subject to the supervision of Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões).

In this case, the Issuer cannot predict how the potentially applicable new supervision rules may affect its relationship with the Issuer. Notwithstanding the foregoing, the imposition of concentration ratios to MGAM could lead to the sale of Issuer’s capital to third parties. Such a sale would require the prior amendment of the Issuer's current legal nature, so that it becomes a Portuguese company of the type *sociedade anónima*, considering that its current institutional capital is not represented by shares and cannot be disposed of by MGAM.

In case the basis for the amendment of Montepio's current legal framework into a *sociedade anónima* is not well perceived by the market, investors and clients alike, it may have a material adverse effect on the Issuer’s condition, ability to pursue its business and results of its operations.

Please refer to the section “*Change in legal framework of the Issuer*” for a description of the possible consequences arising of the change of CEMG's legal nature into a *sociedade anónima*.

#### **Amendment of the Tax Status of the Issuer**

Until 31 December 2011, the Issuer was exempt from Corporate Income Tax in Portugal, according to article 10(1)(b) of the Portuguese Corporate Income Tax Code. The abovementioned exemption was recognized by the Order of 3 December 1993, issued by the Secretary of State for Tax Affairs, and confirmed by Law no. 10-B/96 of 23 March, which approved the Portuguese State Budget for 1996.

The Portuguese State Budget for 2012, approved by Law no. 64-B/2011, revoked the exemption of Corporate Income Tax applicable to entities attached to private entities of social solidarity, with effect from January 2012. Thus, the Issuer, as an entity attached to Montepio Geral - Associação Mutualista, is currently subject to the general rules established by the Portuguese Corporate Income Tax Code.

Therefore, and based on the applicable law, the temporary differences between accounting profits and



taxable income acceptable for Corporate Income Tax purposes are eligible for the recognition of deferred tax, whenever there is a reasonable probability that said taxes will be paid or recovered in the future.

Income tax recorded in profit and losses includes current taxes and deferred taxes. The income tax is recognised in the profit and losses statement, except if it relates to items recognised in equity, in which case income tax should be recognised in equity. Deferred taxes recognised in equity resulting from the revaluation of financial assets available for sale and derivative hedging cash flows are subsequently recognised in profit and loss when gains or losses which gave rise to those deferred taxes are recognised in profit and loss.

Current tax is the tax calculated in respect of the taxable income for the relevant year, taking into account the tax rates in force or the tax rates approved by the legal authorities on the balance sheet date and any other adjustments to tax related to previous years.

The revocation of the exemption of Corporate Income Tax applicable to entities attached to private entities of social solidarity introduced a negative impact on the profits of the Issuer, since the year of 2012.

### **Deferred Tax Assets Regime**

In its capacity as a savings bank (*caixa económica bancária*), which was not incorporated and is not organised under a Public Limited Company (*sociedade anónima*) legal framework, the Issuer cannot benefit from the Deferred Tax Asset Regime approved by Law no. 61/2014, of 26 August 2014. This law, which approved the special regime applicable to deferred tax assets ("DTA") arising from the non deduction of expenses and negative asset variations regarding impairment losses and post-employment benefits or long term benefits ("DTA special regime"), followed the entry into force of Regulation (EU) no. 575/2013, from the European Parliament and the Council, dated of June 26 of 2013 – in the implementation of "Basel III" – which, *inter alia*, determined that DTAs are generally deducted from the Tier 1 capital of credit institutions, with negative implications on their capital levels as of 1 January 2014. Nevertheless, CEMG is following the legal procedures required in order to benefit from the Deferred Tax Asset Regime.

The DTA special regime is applicable to expenses and negative asset variations that have not been deducted to the taxable income but which were accounted in tax periods that begin in, or after, 1 January 2015, and to DTAs registered in the taxpayer's annual accounts of the last tax period of 2014. (In 2014, the Issuer had registered DTAs of € 264.5 million and in 2015 of € 247 million.).

The DTA special regime was recently amended through Law no. 23/2016 of 19 August 2016, which introduced a phasing out scheme. Under this phasing out scheme, the special regime will no longer apply to DTAs computed on costs and negative net worth variations arising from credit impairment losses and post-employment or long term employment benefits recorded in 2016 onwards.

The Issuer may not generate enough future profits to allow for the deduction of the DTAs.

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

On 14 February 2013, 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. However, Estonia has since stated that it will not participate. The European Commission's Proposal has a very broad scope and could, if adopted, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

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

The Issuer is incorporated in Portugal and therefore investors 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.

On 10 October 2016, at the meeting of the Finance Ministers in Luxembourg, ten Member States reached an agreement about the core features of the tax.

However, 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.

### **Exposure to the Issuer's credit risk**

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

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

Information on the ratings granted to the Issuer (including any changes to the ratings as described in the preceding paragraph) as well as on any update to the Issuer's rating is available on CMVM's website ([www.cmvm.pt](http://www.cmvm.pt)) and on the Issuer's website ([www.montepio.pt](http://www.montepio.pt)).

### **Banking Markets and Competition**

In 2016 the Portuguese Banking system activity was carried out in a context of modest recovery of the Portuguese economy, despite decelerating comparing to the previous year.

Over the last years, owing to the Economic and Financial Assistance Programme, the Portuguese banking system undertook deep adjustments with regard to the size and composition of its balance sheet as well as concerning its cost structure.

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

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

Portuguese Banking system liquidity position remained comfortable with the rise in the coverage by liquid

assets of short-term funding requirements.

The sharp decline in the Portuguese banking system profitability was attributable to the decrease in the results of financial operations associated to an increase in impairments and provisions for non-credit assets. Nonetheless, the Portuguese Banking system witnessed a steady reestablishment of the profitability of recurrent nature.

The increasingly demanding regulatory framework and adverse economic conditions, associated to the weak profitability in the Banking system, and the ongoing elimination of transitional provisions for eligibility of own funds, in the scope of the CRR/CRD IV implementation process pressured Portuguese Banks solvency levels.

The banking and financial sector specific vulnerabilities and risks remained practically unchanged, though some partially materialized or intensified, namely the risk of perpetuation of low interest rates, the risk of deterioration in the economic perspectives in Portugal and other geographies to which domestic agents are exposed, the risk of sovereign debt risk premia increasing, associated to the risk of worsening the market's negative perception regarding banks with higher levels of non-productive assets.

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

The Issuer's main competitors in the Portuguese market are chiefly commercial and saving banks, namely Caixa Geral de Depósitos, Millennium BCP, Novo Banco, Santander Totta and Banco BPI.

In September 2016 the Issuer sustained its position in the Portuguese market<sup>1</sup> reaching a market share of 6.1 per cent. in total deposits (6.2 per cent. in December 2015), 6.7 per cent. in total credit (6.7 per cent. in December 2015), and 6.3 per cent. in credit to corporate clients excluding real estate (6.1 per cent. in December 2015), and maintained its international presence in Europe and in the United States via its representation offices, as well as in Cape Verde, Angola and Mozambique through its subsidiaries.

### **Credit Risk**

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Issuer's business. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in Portuguese or global economic conditions, or arising from systemic risks in financial systems, could affect the recovery and value of the Issuer's assets and require an increase in the Issuer's provision for credit impairment and other related provisions, and accordingly would have a material adverse effect on the Issuer's financial condition and on the results of its operations. As of 30 June 2016, the Issuer's total credit risk exposure was € 19,295 million (gross exposure, in accordance with the prudential consolidation perimeter, including securitisation positions).

### **Market risk**

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

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

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

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<sup>1</sup> Source: Bank of Portugal, Statistics Bulletin – Monetary and Financial Statistics.

The most significant market risks faced by the Issuer are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. 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's balance sheet management involves also the Assets and Liabilities Committee ("ALCO"), where an assessment of the interest rate, exchange rate and liquidity risks is made, in particular regarding the Issuer's compliance with internal limits for the static and dynamic gaps of interest rate, exchange rate and liquidity risks (static gap meaning the difference between assets and liabilities elements of the current portfolio considering only contractual reimbursements and maturities, not taking into account projections for new business, and assuming a run-off level for current deposits; the dynamic gap also incorporates the projections for new business).

For interest rate risk measurement purposes, assets and liabilities sensitivity to interest rate changes are aggregated by time bands according to their respective repricing dates, and the balance-sheet interest rate mismatch is calculated. As of 30 June 2016, the interest rate gap was €-1,737 million, compared to €-1,309 million as of 31 December 2015.

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

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

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

In order to mitigate this risk, the Issuer continued to focus on binomial liquidity/risk, which drove the investments made to be centered, predominantly, on investment-grade issuers, in sectors least exposed to the effects of the current economic crisis, a policy which has translated into the acquisition of securities which comply with ECB's eligibility criteria for Eurosystem credit operations (published at <http://www.ecb.int/mopo/assets/html/index.en.html>) (the "**ECB Eligibility Criteria**"), increasing the Issuer's on-balance sheet stored liquidity.

The most relevant exposure of the Issuer is in relation to Portuguese sovereign debt, comprised in its proprietary portfolio. On 31 December 2015, the exposure of the Issuer to Portuguese sovereign debt was of around €1,046.5 million, being €6.4 million in the trading portfolio, €1,014.0 million in the assets available for sale and €26.1 million in the held-to-maturity portfolio. On 30 September 2016, the exposure of the Issuer to Portuguese sovereign debt was of around €2,487.7 million, being €8.7 million in the trading portfolio, €1,370.3 million in the assets available for sale and €1,108.8 million in the held-to-maturity portfolio.

Available-for-sale financial instruments are measured at fair value and their changes are registered against fair value reserves until impairment signs emerge or until sold – in this case, accumulated losses and gains recognised as fair value reserves are transferred to results. Potential depreciations in the fair value of the trading and of the available-for-sale portfolios of sovereign debt may influence negatively the Issuer's financial situation and results.

In what concerns held-to-maturity securities, these are initially measured at fair value and, subsequently,

measured at their amortized cost, with any impairment losses being recognised in results.

### **Liquidity risk**

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

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

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

In a reversal of the trend that started in 2015, the “net credit to customers / total customer deposit” ratio increased to 114.7 per cent., in September 2016, from 113.1 per cent. in December 2015. If securities placed with clients are added to clients' total deposits (resulting in clients' total resources), the conversion ratio was, in September 2016, 99.5 per cent. (97.7 per cent. in December 2015).

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

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

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

The Issuer's core activity is retail banking, representing 57.5 per cent. of the Issuer's total financing (including capital) on 30 September 2016 (as opposed to 61.3 per cent. at the end of 2016, and to 69.1 per cent. at the end of 2015). The progressively reduced weight of capital markets resources in the funding of the Issuer, together with a potential decrease of clients' resources, driven by highly competitive fund-raising in the retail market, may bring an adverse impact on the Issuer's liquidity.

To mitigate potential liquidity gaps derived from its balance sheet structure, the Issuer has been following a strategic policy of strengthening its portfolio with highly liquid securities. These assets may also be used as collateral for refinancing from ECB or from other financial institutions and therefore constitute a readily available source of liquidity.

The value of eligible assets for ECB funding went from €4.0 billion in December 2015 to €3.8 billion in September 2016. The Issuer had a total collateral pool available for ECB refinancing in an amount of €1.2 billion in September 2016 (€1.7 billion in December 2015).

### **Operational Risk**

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

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

### **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.

### **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.

### **Regulators' audit**

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

The result of such audits, which subject may vary in accordance at the Bank of Portugal's discretion, may, *inter alia*, result in corrections to the Issuer's accounts with material adverse consequences on the Issuer's financial condition.

### **European Central Bank – Single Supervisory Mechanism**

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

The SSM may apply to the Issuer, if this credit institution is considered of significant relevance with regard to the Portuguese domestic economy and should therefore be supervised by the ECB, or is considered within the scope of less significant institutions specified in a framework adopted and published by the ECB in consultation with national competent authorities.

### **Change in legal framework of the Issuer**

Following the approval of the new savings banks act by Decree-Law no. 190/2015, of 10 September 2015 (“**Savings Banks Act**”), which entered into force on 10 October 2015, savings banks (*caixas económicas*) with assets equal or greater than € 50,000,000.00 (fifty million euro) were classified as full service savings banks (“*caixas económicas bancárias*”) (as opposed to affiliated savings banks (“*caixas económicas anexas*”)) and must adopt the form of public limited liability companies (“*sociedades anónimas*”) with a public ownership structure.

In relation to full service savings banks, the Savings Banks Act further requires that the majority of the share capital or voting rights thereof are held by the respective owner institutions. The owner institutions may only be mutual associations (as it is the case, in relation to the Issuer, of Montepio Geral Associação

Mutualista), charities (“*misericórdias*”) or beneficence institutions.

Insofar as the governing bodies of full service savings banks (*caixas económicas bancárias*) are concerned, it is expressly determined that the Companies Code (*Código das Sociedades Comerciais*) will apply. The Savings Banks Act further requires that the management and supervisory boards of full service savings banks are separate and independent from their respective owner institution, specifically prohibiting *ex officio* appointments. As to the separation and independence between the Issuers's management and supervisory boards and the related governing bodies of its institutional owner (“*Montepio Geral Associação Mutualista*”), certain changes have been or are in the course of being implemented by the Issuer in order to ensure such separation, thereby improving its corporate governance structure (for more details on this matter, please refer to the section headed *Executive Board of Directors and other Governing Bodies of the Issuer* below); however, the Issuer cannot at this stage represent that no further changes will be required as a result of the entry into force of the new legislation.

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

The Issuer is not yet organized in the form of a public limited liability company (*sociedade anónima*) but following the recommendation of Bank of Portugal, the terms and conditions of the transformation of the Issuer into a Public Limited Company (“*sociedade anónima*”) were definitively approved in an Extraordinary General Meeting of the Issuer, held on 4 April 2017, within the scope of a determination from the Bank of Portugal, dated as of 21 November 2016, pursuant to which CEMG should be transformed into a Public Limited Company (“*sociedade anónima*”) within six months of the Bank of Portugal's resolution date (21 November 2016), all in accordance with number 2 of article 6 of Decree-Law No. 190/2015 of 10 September, which approved the regulatory framework of the Savings Banks Act.

In this Extraordinary General Meeting the following proposals were approved:

1. The Information Report (“*Relatório Informativo*”) and the Issuer's draft Articles of Association, on their exact terms as agreed and previously approved by Bank of Portugal, and the consequent approval of the Issuer's transformation into a Public Limited Company (“*sociedade anónima*”);
2. The Executive Board of Directors of the Issuer should carry out all the necessary actions towards the implementation of the said transformation of the Issuer into a Public Limited Company (“*sociedade anónima*”), without prejudice to the assignments granted to Montepio Geral - Associação Mutualista;
3. To request from Montepio Geral - Associação Mutualista, through its Board of Directors, the necessary cooperation towards the expeditious completion of the ratification of the resolution to transform the Issuer into a Public Limited Company (“*sociedade anónima*”).

On the same date, the Issuer further informed that it had been notified that:

1. The Bank of Portugal had given a favorable opinion regarding the compliance of the Information Report (“*Relatório Informativo*”) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (“*caixa económica bancária*”) into a Public Limited Company (“*sociedade anónima*”), as had been proposed by the Issuer's Executive Board of Directors;
2. The Bank of Portugal had approved the amendments to CEMG's draft Articles of Association arisen from the aforementioned transformation.

The effectiveness of the resolutions approved in the Extraordinary General Meeting, regarding the transformation into a Public Limited Company (“*sociedade anónima*”), are conditional on both (i) ratification by the General Meeting of Montepio Geral Associação Mutualista, to be held no later than 9 May 2017; and (ii) their respective registration. Upon these conditions being met, CEMG's capital shall be

represented in full by ordinary shares.

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

The referred transformation of Montepio into a Public Limited Company will lead to MGAM losing the 100% voting rights in Montepio upon conversion of the Securities (*unidades de participação*) representing its participation fund (*fundo de participação*) into ordinary shares.

Moreover, if the amendment of Montepio's current legal framework into a public limited liability company (*sociedade anónima*) is not in line with the market, investors and clients alike expectations, it may have a material adverse effect on the Issuer's condition, ability to pursue its business and results of its operations.

Other than as stated above, the Issuer is not in a position to anticipate, or to make any assessment of, the implications, adverse or not, that may arise for itself, for the owner of its institutional capital, the holders of Securities (*unidades de participação*) representing its participation fund (*fundo de participação*), the holders of covered bonds and for its creditors generally as a result of its conversion into a public limited liability company (*sociedade anónima*), or of the need to comply with any other aspects of the new legislation. However, in line with the principles enshrined in the Constitution of the Portuguese Republic, the Issuer does not expect that any changes in its status or organization required by the Savings Banks Act and related regulations have an impact on the validity or effectiveness of the Covered Bonds issued and then outstanding under the Programme.

### **Finibanco Angola**

The Issuer has a subsidiary in Angola, Finibanco Angola, S.A.. The operation of Finibanco Angola accounts for 2.4 per cent. of the Issuer's consolidated net assets, as of 30 September 2016 (2.7 per cent. as of 31 December 2015), and contributed to the consolidated results of 30 September 2016 with € 9.4 million (€ 9.1 million in 31 December 2015 and € 9.1 million as of 30 September 2015). The Issuer's operation in Angola, through Finibanco Angola, S.A., is exposed to the risk of adverse political, governmental or economic developments in this country.

In April 2016, the Angolan authorities have submitted a formal request to initiate discussions on an economic program that could be supported by financial assistance from the IMF. The sharp decline in oil prices since mid-2014 represented a major challenge for oil exporters, especially for those economies that have yet to become more diversified. On 30 June 2016, Angola's government called off the financial assistance talks and announced the intention to continue discussions only on technical assistance.

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

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

### **Sovereign Debt and Sovereign Risk**

Despite a strong improvement in the interest of international investors for Portuguese sovereign debt, as evidenced by the strong narrowing of the spread between the respective yield and those of the German public debt with equivalent maturities between the beginning of 2012 and March 2015, there is no guarantee that this trend will be restored. The high level of indebtedness of the Portuguese Republic, the possibility of failure to meet fiscal targets, combined with uncertainty regarding the long-term growth potential of the domestic economy may result in a deterioration in the sovereign risk premium for



Portuguese public debt securities in access to the secondary debt markets and access of the Portuguese Republic to primary debt markets. Such risk could be exacerbated by a reduced confidence in international financial markets or be triggered by a weak performance of the domestic economy or disturbances in the local political environment.

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

The Issuer maintains trading and investment positions in debt securities, foreign exchange, equity and other markets. The most relevant exposure of the Issuer is in relation to Portuguese sovereign debt, comprised in its own portfolio. On 30 September 2016, the exposure of the Issuer to Portuguese sovereign debt was of around €2,487.7 million, being €8.7 million in the trading portfolio, €1,370.3 million in the assets available for sale and €1,108.8 million in the held-to-maturity portfolio. These positions could be adversely affected by volatility in Portuguese sovereign debt creating a substantial losses risk.

The results on 30 September 2016 pertaining to the portfolio of fixed income securities portfolio in Portuguese public debt were €3.1 million (€76.6 million on 30 September 2015). There is a risk that these capital gains reduction may continue or even losses may be recognized in the next quarters if market appetite for Portuguese securities continue subdued comparative to another peripheral economies.

### **Real Estate market**

The Issuer is exposed to a contraction of the real estate market given its high exposure to the Portuguese real estate market through mortgage loans, loans granted to construction companies, assets obtained in lieu of payment (*the non-current assets held for sale*), properties for securing loans or related to its operations, funding of real estate development projects and through the exposure to closed-ended real estate funds (disclosed in the Issuer's balance sheet as *Investment Properties*).

The *Investment Properties* in a total outstanding amount of €602.6 million as of 30 September 2016 (€692.5 million as of 31 December 2015) considers the real estate properties owned by "Finipredial - Fundo de Investimento Aberto", "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" and have been subject to full consolidation.

The *non-current assets held for sale* arising from recovered loans amounted to €754.9 million as of 30 September 2016 (€754.9 million as of 31 December 2015) and include buildings and other assets resulting from the foreclosure of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of the Issuer; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment prosolvency). According to the Issuer's expectation, these assets are available for sale in a period less than 1 year and the Issuer has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline.

The balance of participation units of real estate funds amounted to €208.5 million as of 30 September 2016

(€207.0 million as of 31 December 2015).

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

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

### **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.

### **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, which will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators. The Covered Bonds are not guaranteed by any person. In addition, an investment in Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds.

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

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

The Covered Bonds Law came into effect on 20 March 2006 and the Bank of Portugal Regulatory Notices

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

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

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

### **Issuer's Repurchase Commitment**

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

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

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

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

An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 (fifty) years after the Issue Date of such Series. If an Issuer Event occurs, the maturity of the Covered Bonds issued under the Programme will automatically be extended to the Extended Maturity Date, as defined in the applicable Final Terms. In that event, the Issuer may redeem at par all or part of the principal amount outstanding of those Covered Bonds on any Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event also, the interest payable on the principal amount outstanding of those Covered Bonds will change as provided in the applicable Final Terms and such interest may apply on a fixed or floating basis. The extension of the maturity of the principal amount outstanding of those Covered Bonds from the Maturity Date up to the Extended Maturity Date will not result in any right of the holders of Covered Bonds to accelerate payments on those Covered Bonds or constitute an event of default for any purpose and no payment will be due to the holders of Covered Bonds in that event, unless otherwise established in the Terms and Conditions (see *Terms and Conditions of the Covered Bonds*) as amended by the applicable Final Terms.

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

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

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

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

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

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

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

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

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

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

**Benefit of special creditor privilege ("*privilegio 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 ("*privilegio creditório especial*") over all assets forming the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (See *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common

Representative and any Hedge Counterparties at the date hereof and in the future are also preferred creditors of the Issuer which benefit from the above mentioned special creditor privilege (“*privilégio creditório especial*”). None of the assets comprised in the Cover Pool is or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer on the date hereof or in the future.

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

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

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

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

### **Hedging Contracts**

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

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

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

### **Amortisation of Mortgage Credits**

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

### **No due diligence**

None of the Arranger or the Dealers has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations

and warranties provided by the Issuer in the Programme Agreement.

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

Under EU Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “**Savings Directive**”), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest (or income deemed equivalent for these purposes) paid by a person within its jurisdiction to an individual resident in that other EU Member State. In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive. Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period. Certain Member States, in particular Austria benefits from a derogation under Directive 2014/107/EU, which allowed it to delay the full enforcement of Directive 2014/107/EU by one year, until 1 January 2017.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

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

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

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

### **U.S. Foreign Account Tax Compliance Withholding**

The Issuer and other financial institutions through which payments on the Covered Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after 31 December 2013 or are materially modified after that date and (ii) any Covered Bonds characterised as

equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (FATCA) or similar law implementing an intergovernmental approach to FATCA. In addition, if Covered Bonds are issued before 1 January 2014 and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as exempt from FATCA withholding, which may have negative consequences on the existing Covered Bonds, including a negative impact on market price.

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

The application of FATCA to interest, principal or other amounts paid with respect to the Covered Bonds is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered Bonds, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

Portugal has implemented, through Law 82-B/2014, of 31 December 2014 and Decree Law 64/2016, of 11 of October, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the “Financial Reporting Regime”) in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation, the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese tax authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America.

In addition, Portugal has signed the Intergovernmental Agreement with the U.S. on 6 August 2015. The Intergovernmental Agreement was ratified by Portugal on 5 August 2016 and, pursuant to Notice (Aviso) no. 101/2016, entered into force on 10 August 2016. This is named a Model 1 IGA.

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

### **Change of law**

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

### **The secondary market risk for Covered Bonds**

When issued, there may not exist an established trading market for Covered Bonds, and such a market may potentially never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Covered Bonds easily or do so at prices that will provide a yield comparable to similar investments that benefit from a developed secondary market. This is particularly true for the case for Covered Bonds that are especially sensitive to interest rates, currency or market risks and those that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

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

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

European regulated investors are in general restricted from using credit ratings for regulatory purposes under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council, the “**CRA Regulation**”), unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non- EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus and/or the Final Terms 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 or not, and to what extent, (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

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

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

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

Covered Bonds held through accounts of Affiliate Members of Interbolsa will be represented in dematerialised book-entry form (“*forma escritural*”) and 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, thus becoming indirect Participants in Interbolsa). The transfer of Covered Bonds and their beneficial interests will be made through Interbolsa.

#### *(b) Payments on Covered Bonds*

All payments on Covered Bonds (including without limitation the payment of accrued interest, coupons



and principal) will be (i) made by the Issuer to the Agent, (ii) transferred, in accordance with the procedures and regulations of Interbolsa, from the account held by the Agent with the Bank of Portugal to the accounts of the Affiliate Members of Interbolsa who hold control accounts on behalf of the holders of Covered Bonds and, thereafter, (iii) transferred by the Affiliate Members of Interbolsa from their accounts to the accounts of their clients (which may include Euroclear Bank and Clearstream, Luxembourg).

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

*(c) Portuguese Tax Rules*

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

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

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

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

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

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

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

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

*Risks relating to Fixed Rate Covered Bonds.*

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

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

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

Floating Rate Covered Bonds may be payable plus or minus a margin.

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

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

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

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

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

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

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

### **Relationship with the Dealers**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of the Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions

in such securities and instruments.

### **Appointment of a Dealer as Calculation Agent**

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

### **Basel Committee: potential impact of Basel IV requirements**

Recent developments in the banking market have suggested that even stricter rules may be applied by a later framework ("Basel IV"), that is expected to follow Basel III and would require more stringent capital requirements and greater financial disclosure. Basel IV is likely to comprise higher leverage ratios for the banks to meet, more detailed disclosure of reserves and the use of standardised models rather than banks' internal models, for calculation of capital requirements.

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

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

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

Basel III recommendations endorse the implementation of liquidity coverage ratios of short and medium/long term, known as Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR"). The LCR addresses the sufficiency of high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. As of 2017, financial institutions have been required to maintain in their own portfolio high quality liquidity assets corresponding to 80 per cent. of the net cash outflows in the following 30 days. As of 2018, this requirement will increase to 100 per cent. The NSFR, which is 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.

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

### **Leverage ratios: impact on funding and Issuer's activity**

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

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

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

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

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

### **Concentration Risks**

The Issuer has significant credit exposure to certain groups of clients. The Issuer has a well-diversified loan portfolio, with the top 10 exposures representing 5.6% as of 31 December 2016. However, in the event that any of these groups defaults, such defaults may lead to a material increase in impairment charges, which could have an adverse effect on the Issuer's results and asset quality.

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

## GENERAL DESCRIPTION OF THE PROGRAMME

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

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

<b>Overview</b>	Amendment of the Issuer's former covered bond programme to a conditional pass-through covered bond structure whereby an Issuer Event in relation to one or more Series of Covered Bonds results in a move into Pass Through format.
<b>Issuer Events</b>	<p>Issuer Events to include:</p> <ul style="list-style-type: none"> <li>(i) Issuer Insolvency Event; and</li> <li>(ii) Issuer Default of Payment Event.</li> </ul> <p>The process upon the occurrence of each Issuer Event shall be as follows:</p> <ul style="list-style-type: none"> <li>a) In the case of an Issuer Insolvency Event, all series of Covered Bonds (which up to that point are not yet in Pass-Through format) shall become Pass Through and be due on their respective Extended Maturity Date. A Substitute Credit Institution ("SCI") will be appointed in line with the Covered Bond Law. The Cover Pool shall be separated from the Issuer's insolvency estate and the SCI shall manage the Cover Pool in the place of the Issuer.</li> <li>b) In the case of an Issuer Default of Payment Event on a Series of Covered Bonds, that Series shall become Pass Through and be due on their Extended Maturity Date.</li> </ul> <p>Should an Issuer Event occur, or should a breach of the obligation of compliance of the Overcollateralisation Percentage occur, a Programme Account shall be set up and the cash received in relation to the Cover Pool will be swept to the Programme Account on a daily basis.</p>
<b>Issuer Default of Payment Event</b>	<p>The Issuer, fails to pay:</p> <ul style="list-style-type: none"> <li>(i) any principal due on a Maturity Date (although a failure to pay on the Maturity Date of a Series of Covered Bonds shall not constitute an Event of Default) or;</li> <li>(ii) any interest due on an Interest Payment Date (subject to any applicable grace period or the availability of any Reserve Amount).</li> </ul>
<b>Extended Maturity Date</b>	Up to 50 years after the issuance date of any Covered Bond (the date in relation to each series to be defined in the applicable final terms).
<b>Overcollateralisation Percentage</b>	<p>The Value of the Cover Pool as a percentage of the aggregate Value of all outstanding Covered Bonds shall equal or exceed the greater of:</p> <ul style="list-style-type: none"> <li>(i) 105.26% (the "Statutory Test"), and;</li> <li>(ii) 1 divided by the Asset Percentage (the "Contractual Asset Cover Test").</li> </ul> <p>The above tests shall be monitored by the Cover Pool Monitor on a monthly basis.</p>

<b>Contractual Asset Cover Test and Asset Percentage</b>	<p>The Issuer contractually commits to maintaining overcollateralisation at a level greater than that required by law (as covered separately in the Statutory Test). The size of the commitment is determined by the Asset Percentage.</p> <p>"Asset Percentage" means the lower of 100 per cent. and any other percentage determined by the Issuer from time to time.</p> <p>As of 1 July 2016, the Asset Percentage is 84.75 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage subject to obtaining the Hedging Counterparty's consent and to the extent that the Rating Agencies confirm that the increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings currently assigned to each of the outstanding Covered Bonds under the programme.</p> <p>The Asset Percentage will be notified to holders of Covered Bonds as part of the regular reporting.</p>
<b>Reserve Account</b>	<p>On any date, an amount equal to the interest due on the Covered Bonds during the following three months shall be held in the Reserve Account. The Reserve Account shall be maintained with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by law (currently, "A-").</p> <p>The amount deposited in the Reserve Account shall be available on any interest payment date towards the payment of interest due on the Pass Through bonds to the extent that there are insufficient available funds.</p> <p>The Reserve Account required level shall be monitored by the Cover Pool Monitor on a monthly basis.</p> <p>The Issuer may replace the Reserve Account with a liquidity facility of an equivalent size. This liquidity facility will be subject to confirmation that the credit ratings assigned to the Covered Bonds by the Rating Agencies will not be reduced, removed, suspended or placed on credit watch and in any case the relevant liquidity facility provider's credit rating shall meet the minimum rating required by law (currently, "A-").</p>
<b>Priority of Payments</b>	<p>Following any Covered Bonds becoming Pass Through, the available funds shall be applied on each payment date in the following order of priority:</p> <ol style="list-style-type: none"> <li>1. Expenses, Common Representative and any hedging payments;</li> <li>2. Interest due;</li> <li>3. Replenish Reserve Amount;</li> <li>4. Principal due;</li> <li>5. Remaining amounts to be retained as part of the Cover Pool until all series of Covered Bonds have been repaid in full, should there be any excess cash; and</li> <li>6. Any remainder to the Issuer.</li> </ol>
<b>Programme Account</b>	<p>Upon the occurrence of an Issuer Event, or upon the occurrence of a breach of the obligation of compliance of the Overcollateralisation Percentage, the Programme Account shall be established with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than</p>

	the minimum rating required by law (currently, "A-").
<b>Sale of Assets</b>	<p>In order to redeem, to the extent possible and at pari passu, the Covered Bonds that have been extended to their Extended Maturity Date, prior to such date, the Issuer and/or the SCI (as applicable) shall undertake on a best efforts basis to sell randomly selected Assets of the Cover Pool, on every sixth Interest Payment Date following an Issuer Event, in an amount sufficient to redeem, <i>pari passu</i>, the Series of Covered Bonds under such a format, in whole or in part, covering all outstanding Covered Bonds that have been extended to their respective Extended Maturity Date.</p> <p>For the avoidance of doubt, the Sale of Assets comprised in the Cover Pool shall be done in commercial acceptable terms, provided that such sale and subsequent redemption of the respective Covered Bonds will not result in a breach of the Overcollateralisation Percentage on and between any Interest Payment Date.</p>
<b>Interest Payment Date</b>	Interest Payment Date means the date specified as interest payment date in the Final Terms of a Series of Covered Bonds and, upon the occurrence of an Issuer Event, the first Business Day of each month, following such occurrence, for all the outstanding Series or for all the applicable Series in case of a Default of Payment Event.
<b>Early Redemption</b>	<p>The Issuer, or the SCI on its behalf, as applicable, may redeem Pass Through bonds via a Sale of Assets.</p> <p>For the avoidance of doubt, the Issuer may elect to participate as a purchaser in the Sale of Assets if it is willing and able to do so and must abide by the terms outlined in the above mentioned Sale of Assets section.</p>

Under this Programme, the Issuer may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer, subject as set out herein. An overview of the terms and conditions of the Programme and the Covered Bonds appears under *Overview of the Covered Bonds Programme*. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of those Covered Bonds and will be set out in the *Terms and Conditions of the Covered Bonds* endorsed on, or attached to, the Covered Bonds as modified and supplemented by the applicable final terms attached to, or endorsed on, such Covered Bonds (the “**Final Terms**”), as more fully described under *Final Terms of the Covered Bonds* below. Covered Bonds may be issued under the Programme up to 20 October 2018 or such other date as may be approved by the Issuer.

This Base Prospectus was prepared for the purposes of the Programme and will be valid for a period of 12 months from the date this Base Prospectus is approved by the Central Bank of Ireland (completed by any supplement in accordance with article 16 of the Prospectus Directive) for admitting Covered Bonds to trading on the Irish Stock Exchange's regulated market or any other regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, as amended, until no more Covered Bonds concerned with this Programme are issued in a continuous or repeated manner in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Covered Bonds previously or simultaneously issued under the Programme, does not exceed €5,000,000,000 (subject to increase in accordance with the Programme Agreement (as defined below)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

- (a) the euro equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms of the Covered*

*Bonds*) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding Business Day, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the Lisbon foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and

- (b) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms of the Covered Bonds*) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.



## OVERVIEW OF THE COVERED BONDS PROGRAMME

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

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

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

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

*Capitalised terms used in this overview and not otherwise defined below or under Definitions have the respective meanings given to those terms elsewhere in this Base Prospectus.*

**DESCRIPTION:** Conditional Pass-through Covered Bonds Programme.

**PROGRAMME SIZE:** Up to €5,000,000,000 (or its equivalent in other currencies, all calculated as described under General Description of the Programme) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time.

The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement. Covered Bonds may be issued under the Programme up to 20 October 2018, or such other date as approved by the Issuer.

**ISSUER:** Caixa Económica Montepio Geral ("**Montepio**") (see *Description of the Issuer*).

The Issuer is a savings bank ("*caixa económica bancária*"), pursuant to and in accordance with Decree-Law no. 190/2015, of 10 September 2015, with an institutional capital of € 1,770,000,000 and having its registered office at Rua Áurea, 219-241, in Lisbon, with the sole commercial registration and tax number 500 792 615. The Issuer is not currently organized in the form of a public limited liability company ("*sociedade anónima*") – (see Change in legal framework of the Issuer). The conversion of the Issuer into a Public Limited Company was approved in an extraordinary general meeting of the Issuer, held on 4 April 2017.

The Issuer is an entity with capital open to public investment subject to the legal framework arising thereof.

As a savings bank ("*caixa económica bancária*"), whose main activity is banking intermediation, collecting retail deposits and to grant credit to individuals and companies. Most of Montepio's loans to individuals are secured by mortgages on property because Montepio is specialized in mortgage credit, and, in particular, housing credit. Montepio operates as a universal bank integrated in the Caixa Económica Montepio Geral Financial

Group and together with its subsidiaries offers a wide range of banking and financial products and services, such as mutual, real estate and pension funds, insurance (life and non-life), investment management services, and the provision of credit cards, aimed at catering for all its customers' financial needs.

<b>AUDITOR:</b>	The Issuer's auditor is KPMG & Associados - SROC, S.A., member of the Portuguese Institute of Statutory Auditors (" <i>Ordem dos Revisores Oficiais de Contas</i> "), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11th floor, 1069-006 Lisboa.
<b>ARRANGER:</b>	The Royal Bank of Scotland plc (trading as NatWest Markets), in its capacity as Arranger acting through its office at 250 Bishopsgate, London, EC2M 4AA.
<b>DEALERS:</b>	Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, J.P. Morgan Securities plc, Landesbank Baden-Württemberg, Merrill Lynch International, Natixis, The Royal Bank of Scotland plc (trading as NatWest Markets), Société Générale and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
<b>COMMON REPRESENTATIVE:</b>	Citicorp Trustee Company Limited acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement.
<b>AGENT:</b>	Montepio, in its capacity as Agent, with head office at Rua Áurea, 219-241, in Lisbon.
<b>PAYING AGENT:</b>	Montepio, in its capacity as Paying Agent, with head office at Rua Áurea, 219- 241, 1100-062 Lisbon, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.
<b>COVER POOL MONITOR:</b>	KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., member of the Portuguese Institute of Statutory Auditors (" <i>Ordem dos Revisores Oficiais de Contas</i> "), registered with the CMVM with registration number 9098 with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11th floor, in Lisbon. See Cover Pool Monitor.
<b>RESERVE ACCOUNT BANK:</b>	Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services, acting in its capacity as bank at which the Reserve Account is held. See Reserve

Account Bank.

**ACCOUNTS BANK:** Montepio, in its capacity as Accounts Bank, with head office at Rua Áurea, 219- 241, 1100-062 Lisboa.

**HEDGE COUNTERPARTIES:** The parties or party (each, a "**Hedge Counterparty**" and together, the "**Hedge Counterparties**") that, from time to time will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

**RISK FACTORS:** There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme. These are set out under Risk Factors and include, inter alia, exposure to adverse changes in the Portuguese economy, the credit risk of borrowers and clients of the Issuer, the risk of increased competition in the Portuguese market and other market risks to which the Issuer is or may become exposed. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under Risk Factors and include, inter alia, the untested nature of the Covered Bonds Law, the dynamics of the legal and regulatory requirements, the fact that the Covered Bonds may not be suitable investments for all investors and the risks related to the structure of a particular issue of Covered Bonds.

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

**DISTRIBUTION:** Covered Bonds may be distributed by way of private placement and on a non- syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. Covered Bonds will be issued and placed only outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See *Subscription and Sale and Secondary Market Arrangements*.

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

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

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

**RATINGS:** Covered Bonds issued under the Programme are expected on issue to be rated at least by one rating agency which has applied to be registered with the European Securities and Markets Authority under Regulation (EC) no. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") as amended by Regulation (EU) no. 513/2011 of the European Parliament and of the Council

of 11 May 2011 and by Regulation (EU) 462/2013 of the European Parliament and the Council.

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

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

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

**LISTING AND  
ADMISSION TO  
TRADING:**

Application has been made to the Central Bank of Ireland to approve this document as a Base Prospectus and further application has been made to the Irish Stock Exchange for the admission of Covered Bonds issued under the Programme to the Official List of the Irish Stock Exchange and trading on the Regulated Market. Covered Bonds may, after notification by the Central Bank of Ireland to the supervision authority of the relevant member state(s) of the European Union ("EU") in accordance with Article 18 of the Prospectus Directive, be admitted to trading on the regulated market(s) of and/or be admitted to listing on stock exchange(s) of any other member states of the EEA. Covered Bonds which are neither listed nor admitted to trading on any market may also be issued under the Programme. The relevant Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or regulated market(s).

**SELLING  
RESTRICTIONS:**

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

**UNITED STATES  
SELLING  
RESTRICTION:**

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

<b>USE OF PROCEEDS:</b>	Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.
<b>STATUS OF THE COVERED BONDS:</b>	The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer and will rank <i>pari passu</i> among themselves. The Covered Bonds will be mortgage covered bonds (" <i>obrigações hipotecárias</i> ") issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank <i>pari passu</i> with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See <i>Characteristics of the Cover Pool</i> .
<b>TERMS AND CONDITIONS OF THE COVERED BONDS:</b>	Final Terms will be prepared in respect of each Tranche of Covered Bonds, supplementing or modifying the Terms and Conditions of the Covered Bonds set out in <i>Terms and Conditions of the Covered Bonds</i> .
<b>CLEARING SYSTEMS:</b>	The clearing systems in which Interbolsa participates in order to ensure the clearing of the securities settled through it (together the " <b>Clearing Systems</b> " and, each, a " <b>Clearing System</b> "). See <i>Form of the Covered Bonds and Settlement</i> .
<b>FORM OF THE COVERED BONDS:</b>	The Covered Bonds held through Interbolsa will be in book-entry form, either in bearer ( <i>ao portador</i> ) or in registered ( <i>nominativas</i> ) form, and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of Decree-Law 486/99 of 13 November 1999 (as amended, the " <b>Portuguese Securities Code</b> ") and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. See <i>Form of the Covered Bonds and Settlement</i> .
<b>TRANSFER OF COVERED BONDS:</b>	The Covered Bonds may be transferred in accordance with the provisions of Interbolsa and the Portuguese legislation. The transferability of the Covered Bonds is not restricted.
<b>MATURITIES:</b>	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than 2 years or in excess of 50 years. See also <i>Extended Maturity Date</i> .
<b>ISSUE PRICE:</b>	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms
<b>INSOLVENCY EVENT:</b>	Issuer Insolvency. See <i>Terms and Conditions of the Covered Bonds</i> .

<b>NEGATIVE PLEDGE:</b>	None
<b>CROSS DEFAULT:</b>	None
<b>GUARANTOR:</b>	None
<b>FIXED RATE COVERED BONDS:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
<b>FLOATING RATE COVERED BONDS:</b>	<p>Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> <li>• on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("ISDA") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or</li> <li>• on the basis of a Reference Rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>• on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.</p>
<b>ZERO COUPON COVERED BONDS:</b>	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms
<b>REDEMPTION:</b>	The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (i) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (other than in specified instalments, if applicable – see <i>The Covered Bonds Law</i> ), or (ii) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer, respectively on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms. See also <i>Extended Maturity Date</i> .
<b>EXTENDED MATURITY DATE:</b>	<p>An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.</p> <p>Such Extended Maturity Date, as defined in the Final Terms of each Series of</p>

Covered Bonds, will apply if an Issuer Event occurs. In this case the maturity of the principal amount outstanding of all Covered Bonds issued under the programme will be automatically extended to the relevant Extended Maturity Date. In that event, the Issuer and/or any entity managing the Cover Pool may redeem all or any part of the principal amount outstanding of all or (in case of a default of Payment Event) the relevant Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date in accordance with Condition 6.9 (Pass-through provision) of the Terms and Conditions of the Covered Bonds.

The Issuer, or if applicable the SCI, shall give to the holders of Covered Bonds (in accordance with Condition 11 (*Notices*) **of the Terms and Conditions of the Covered Bonds**), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer, or the SCI, to notify such persons shall not affect the validity or effectiveness of any redemption by of the Issuer Covered Bonds on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person. Following the occurrence of an Issuer Event, Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Maturity Date to (but excluding) the earlier of the Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date. Interest will be payable on each Interest Payment Date following the Maturity Date in respect of the Interest Period ending immediately prior to such Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms at the rate provided for in the applicable Final Terms.

In the case of a Series of Covered Bonds to which an Extended Maturity Date so applies, those Covered Bonds may for the purposes of the Programme be:

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

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

**PASS-THROUGH:** in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*) of the Terms and Conditions of the Covered Bonds

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

Terms and Conditions, on a pro rata basis in the same priority line.

**PASS-THROUGH  
REDEMPTION  
UNDERTAKINGS:**

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

**COVERED BONDS  
WITH A  
REPURCHASE  
COMMITMENT:**

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

**DENOMINATION OF  
THE COVERED  
BONDS:**

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s), as specified in the applicable Final Terms, subject to compliance with the applicable legal and/or regulatory and/or central bank requirements and provided that each Series will have Covered Bonds of one denomination only. See *Certain Restrictions* above

**MINIMUM  
DENOMINATION:**

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

**RESERVE  
ACCOUNT:**

While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Reserve Account Bank in respect of the Programme and the Reserve Account and any balances



standing to the credit thereof will form part of the Cover Pool and be subject to the same legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times. The Issuer will be required to maintain at all times in the Reserve Account funds in an amount equal to or in excess of the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts standing in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may, in case no Issuer Event has occurred, release the excess amounts, without prejudice to the obligation of compliance with the maintenance of the Overcollateralisation Percentage. The funds available in the Reserve Account and the Total Target Reserve Amount shall be monitored by the Cover Pool Monitor on a monthly basis.

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

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

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

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

## **LIQUIDITY**

An eligible entity the short-term unsecured debt obligations of which are

**FACILITY  
PROVIDER:**

rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

**TAXATION OF THE  
COVERED BONDS:**

All payments in respect of the Covered Bonds will be made without deduction for, or on account of, withholding Taxes imposed by any jurisdiction, unless the Issuer shall be obliged by law to make such deduction or withholding. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. See *Taxation*. In order for withholding tax not to apply the holders of the Covered Bonds must, *inter alia*, deliver certain tax certifications.

**THE COVERED  
BONDS LAW:**

The Covered Bonds Law introduced into Portuguese Law a framework for the issuance of certain types of asset covered bonds. Asset covered bonds can only be issued by (i) credit institutions for the purpose of the Credit Institutions General Regime or (ii) by special credit institutions created pursuant to the Covered Bonds Law, whose special purpose is the issue of covered bonds. The Covered Bonds Law establishes that issuers of mortgage covered bonds shall maintain a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, over which the holders of the relevant covered bonds, have a statutory special creditor privilege ("*privilégio creditório especial*").

The Covered Bonds Law also provides for (i) the inclusion of certain hedging contracts in the relevant cover pool and (ii) certain special rules that shall apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulatory Notices further provide for (i) the supervision and regulation of issuers of covered bonds by the Bank of Portugal, (ii) the role of a cover pool monitor in respect of each issuer of covered bonds and the relevant cover pool maintained by it, (iii) the role of the common representative of the holders of covered bonds, (iv) restrictions on the types and status of the assets comprised in a cover pool (including loan to value restrictions, weighted average interest receivables and weighted average maturity restrictions), and (v) asset/liability management between the cover pool and the covered bonds, See *Characteristics of the Cover Pool*, *Insolvency of the Issuer*, *Cover Pool Monitor*, *Common Representative of the Holders of Covered Bonds* and *The Covered Bonds Law*.

The Covered Bonds issued by the Issuer will qualify as mortgage covered bonds ("*obrigações hipotecárias*") for the purposes of the Covered Bonds Law. The Covered Bonds will be senior obligations of the Issuer and will rank equally with all other Covered Bonds which may be issued by the Issuer. In the event of an insolvency of the Issuer, the holders of the Covered Bonds issued by the Issuer, together with the Other Preferred Creditors, will have recourse under the Covered Bonds Law to the Cover Pool in priority to other creditors (whether secured or unsecured) of the Issuer who are not preferred creditors under the Covered Bonds Law. See *Characteristics of the Cover Pool - Insolvency of the Issuer*.

**GOVERNING LAW:**

Except for the Hedging Contracts, which are governed by, and will be construed in accordance with, English Law, unless otherwise specifically

provided, the Covered Bonds and all other documentation relating to the Programme are governed by, and will be construed in accordance with, Portuguese Law

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2015 (available at [https://www.montepio.pt/iwov-resources/SitePublico/documentos/en\\_GB/investor-relations/cemg-annual-report-2015.pdf](https://www.montepio.pt/iwov-resources/SitePublico/documentos/en_GB/investor-relations/cemg-annual-report-2015.pdf)) and 31 December 2014 (available at [https://www.montepio.pt/iwov-resources/SitePublico/documentos/en\\_GB/investor-relations/cemg-annual-report-2014.pdf](https://www.montepio.pt/iwov-resources/SitePublico/documentos/en_GB/investor-relations/cemg-annual-report-2014.pdf)), as approved by the General Meeting of the Issuer, available in Portuguese and English languages, in each case together with the auditors' reports prepared in connection therewith, which appear in the annual report of the issuer for the relevant year. The audited non-consolidated annual financial statements of the Issuer for the financial years ended 31 December 2015 and 31 December 2014, as approved by the General Meeting of the Issuer, in each case together with the auditors' reports prepared in connection therewith, which appear in the annual report of the Issuer for relevant year;
- (b) the unaudited consolidated results of the Issuer for the first half of 2016 (available at [https://www.montepio.pt/iwov-resources/SitePublico/documentos/en\\_GB/investor-relations/cemg-first-half-report-2016.pdf](https://www.montepio.pt/iwov-resources/SitePublico/documentos/en_GB/investor-relations/cemg-first-half-report-2016.pdf));
- (c) the unaudited consolidated results of the Issuer for the third quarter of 2016 (available at [https://www.montepio.pt/iwov-resources/SitePublico/documentos/en\\_GB/investor-relations/report-accounts-cemg-3-quarter-2016.pdf](https://www.montepio.pt/iwov-resources/SitePublico/documentos/en_GB/investor-relations/report-accounts-cemg-3-quarter-2016.pdf)); and
- (d) the earnings release of the Issuer for the financial year ended in 31 December 2016 (available at <http://web3.cmvm.pt/sdi/emitentes/docs/FR63637.pdf>).

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

Any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 and Article 5.4 of the Prospectus Directive, Article 28 of the Prospectus Regulation modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and of the Agent at Rua Áurea, 219-241, 1100-062 Lisbon and from the specified offices of the Common Representative at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom.

This Base Prospectus and the documents incorporated by reference can be obtained from the website of the Irish Stock Exchange, being <http://www.ise.ie>, except for the by-laws of the Issuer which can be obtained from [www.montepio.pt](http://www.montepio.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 for use in connection with any subsequent issue of Covered Bonds.

## RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of article 5.4 of the Prospectus Directive for the purpose of giving information with regard to the Issuer which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds. The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account of or benefit of, U.S. persons (see *Subscription and Sale and Secondary Market Arrangements* below). The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Directive and all laws and regulations applicable thereto, including the Prospectus Regulation.

Each of the Issuer, the members of the Executive Board of Directors and the General and Supervisory Board of the Issuer (see *Executive Board of Directors and Other Governing Bodies of the Issuer*), are responsible for the information contained in this Base Prospectus and hereby declare that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import. The Auditor has responsibility for the financial information that has been certified by it and that is included in this Base Prospectus. KPMG & Associados - SROC, S.A., registered with the CMVM with number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória n.º 17A, 11th floor, 1069-006 Lisboa (the "**Auditor**") has audited and certified the financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015. The consolidated and non-consolidated financial statements for such financial years give a true and fair view of the financial position of the Issuer as at 31 December 2014 and 31 December 2015, as applicable, and of the results of the Issuer's operations and cash flows for the years then ended (see *General Information*). This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see *Documents Incorporated by Reference*). Any decision to invest in the Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including those documents incorporated by reference.

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

This Base Prospectus or any Final Terms (as defined below) does not constitute an offer to sell or a solicitation of an offer to buy any securities other than Covered Bonds or an offer to sell or a solicitation of any offer to buy any Covered Bonds in any circumstance in which such offer or solicitation is not authorised or unlawful. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the Dealers (save for application for approval by the Central Bank of Ireland of this Base Prospectus as a base prospectus for the

purposes of the Prospectus Directive) which would permit a public offering of any Covered Bonds outside the European Economic Area (“EEA”) or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or distributed or published in any jurisdiction and neither this Base Prospectus nor any advertisement or other offering material may be distributed in any jurisdiction, except under circumstances that would result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the United Kingdom, the EEA, Japan, Republic of Italy, and the Portuguese Republic. See *Subscription and Sale and Secondary Market Arrangements*.

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

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

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

## FORM OF THE COVERED BONDS AND SETTLEMENT

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

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

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

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

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act (see *Subscription and Sale* and *Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

### **General**

Interbolsa manages a centralised system (“*sistema centralizado*”) composed by interconnected securities accounts, through which such securities (and inherent rights) are created, held and transferred, and which allows Interbolsa to control at all times the amount of securities so created, held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all the procedures required for the exercise of ownership rights inherent to the covered bonds held through Interbolsa.

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

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

### ***Form of the Covered Bonds***

The Covered Bonds of each Series will be in book-entry form 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 (“*ao portador*”) Covered Bonds, as specified in the applicable Final Terms.

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with each of the Interbolsa Participants. The expression “**Interbolsa Participant**” means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg. Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the Covered Bonds recorded therein, and accordingly the rights and obligations attached thereto.

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

### ***Payment of principal and interest in respect of Covered Bonds***

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the payment current-accounts held in TARGET2 by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of their participants, who act as custodian banks of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

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

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

The Interbolsa Participant must, at the request of Interbolsa, inform the Paying Agent of the bank accounts to which the relevant payments shall be made. Interbolsa must notify the Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Interbolsa Participants. In the case of a partial payment, the amount held in the TARGET2 current account of the Paying Agent must be apportioned pro-rata between the accounts of the affiliate members of Interbolsa. After a payment has been processed, whether in full or in part, the Paying Agent must confirm that fact to Interbolsa.

### ***Transfer of Covered Bonds***

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.



## FINAL TERMS OF THE COVERED BONDS

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

Final Terms dated [●]

### Caixa Económica Montepio Geral

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

under the €5,000,000,000 Conditional Pass-through Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE “**COVERED BONDS LAW**”) AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

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

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the “**Terms and Conditions**”) set forth in the Base Prospectus dated 27 April 2017, [as supplemented on [●]], [which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the “**Prospectus Directive**”, as amended (which includes the amendments made by Directive 2010/73/EU of the European Parliament and of the Council of 4 November 2003, to the extent that such amendments have been implemented in a Member State), of the Commission Regulation (EC) No. 809/2004, as amended (the “**Prospectus Regulation**”).]<sup>2</sup> [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus as so supplemented.]<sup>3</sup> Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus, as supplemented from time to time. The Base Prospectus and the supplements to the Base Prospectus are available for viewing at Caixa Económica Montepio Geral, Rua Áurea, 219-241, 1100-062 Lisboa, at [www.montepio.pt](http://www.montepio.pt) and at [www.ise.ie](http://www.ise.ie) and copies may be obtained from the same addresses.

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

- |   |                       |                                |
|---|-----------------------|--------------------------------|
| 1 | Issuer:               | Caixa Económica Montepio Geral |
| 2 | (i) Series Number:    | [●]                            |
|   | (ii) [Tranche Number: | [●]                            |

<sup>2</sup> References to the Prospectus Directive shall be removed when the Final Terms are used as a pricing supplement, in the scope of exempt offers.

<sup>3</sup> Include for listed Covered Bonds only.

*(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.)]*

- 3** Specified Currency or Currencies: [●]
- 4** (i) Aggregate Nominal Amount of Covered Bonds:
- A. Series: [●]
- B. [Tranche: [●]]
- (ii) Specify whether Covered Bonds are to be admitted to trading [Yes (if so, specify each Series/Tranche)/No]
- 5** (i) Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
- (ii) [Net Proceeds] (Required only for listed issues) [●]
- 6** Specified Denominations: [●][any Covered Bonds, distributed to the public or admitted to trading on a regulated market, will always be issued in a denomination per unit not lower than €100,000]
- 7** (i) Issue Date: [●]
- (ii) [Interest Commencement Date (if different from the Issue Date): [●]]
- 8** Maturity Date: *[specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year]*
- 9** Extended Maturity Date: *[insert date] [the date should be that falling one year after the Maturity Date.] [The Extended Maturity Date should not fall later than 50 years after the Issue Date of such Series].*
- 10** Interest Basis
- (i) Period to (and including) Maturity Date [Fixed Rate Notes]  
[[●] per cent.] [Floating Rate Notes]  
[[Euribor/Libor] +/- Margin  
Margin = [●] per cent.] [Zero Coupon]

		(further particulars specified in [17/18/19] below) [Not Applicable]
	(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	<p>/</p> <p>[[●] per cent. Fixed Rate] [[Euribor/Libor] +/- Margin</p> <p>Margin = [●] per cent.]</p> <p>(further particulars specified in [17/18/19] below)</p> <p><i>[Insert "Not Applicable" only if Extended Maturity Date does not apply]</i></p>
11	Redemption/Payment Basis:	<p>[Redemption at par]</p> <p>[Instalment]</p> <p>If the maturity of the Covered Bonds is extended pursuant to Condition 6.8 redemption will be made in accordance with Condition 6.9.</p>
12	Change of Interest or Redemption / Payment Basis	<i>[Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 17 and 18 below and identify there]</i> [Not Applicable]
13	Put / Call Options	<p>[Investor Put]</p> <p>[Issuer Call]</p> <p>[(further particulars specified in [20/21] below)]</p>
14	(i) Status of the Covered Bonds	The Covered Bonds will be direct, unconditional and senior obligations of the Issuer and rank <i>pari passu</i> with all other mortgage covered bonds for the purposes of the Covered Bonds Law, which are secured by the Cover Pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law.
	(ii) [Date [Board] approval for issuance of Covered Bonds obtained]:	[●]
15	Method of distribution	[Syndicated/Non-syndicated]
16	Listing/Admission to Regulated Market	<i>[Irish Stock Exchange/None]</i>

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

17	Fixed Rate Covered Bonds Provisions
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- To Maturity Date: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
  - From Maturity Date up to Extended Maturity Date [Applicable/Not Applicable] (If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph)  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]*
- (i) Rate [(s)] of Interest:
- To Maturity Date: [●] per cent. per annum [payable [annually/semi-annually/quarterly] in arrears]
  - 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]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[●] in each month up to and including the Extended Maturity Date]  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]*
- (iii) Fixed Coupon Amount [(s)]:
- To Maturity Date [[●] per [●] in nominal amount]
  - 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]*

	<ul style="list-style-type: none"> <li>From Maturity Date up to Extended Maturity Date:</li> </ul>	<p>[Not Applicable] <i>[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]</i></p> <p><i>[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]</i></p>
(v)	Day Count Fraction	[30/360 or Actual/Actual (ICMA), in accordance with Condition 4]
	<ul style="list-style-type: none"> <li>To Maturity Date:</li> </ul>	[30/360 or Actual/Actual (ICMA), in accordance with Condition 4]
	<ul style="list-style-type: none"> <li>From Maturity Date up to Extended Maturity Date</li> </ul>	<p>[Not Applicable] [30/360 or Actual/Actual (ICMA), in accordance with Condition 4]</p> <p><i>[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]</i></p>
(vi)	Determination Date(s):	
	<ul style="list-style-type: none"> <li>To Maturity Date:</li> </ul>	<i>[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)]</i> in each year]
	<ul style="list-style-type: none"> <li>From Maturity Date up to Extended Maturity Date</li> </ul>	<p>[Not Applicable] <i>[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)]</i> in each year</p> <p><i>[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.]</i></p>
<b>18</b>	<b>Floating Rate Covered Bonds Provisions</b>	
	<ul style="list-style-type: none"> <li>To Maturity Date:</li> </ul>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph.)</i>
	<ul style="list-style-type: none"> <li>From Maturity Date up to Extended Maturity Date</li> </ul>	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph.)</i></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>
(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]
  - 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 TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)
- Relevant Screen Page: [●] (in the case of Euribor, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions accordingly)

- B. From Maturity Date up to Extended Maturity Date: [Not Applicable]  
[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after 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 TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)
- Relevant Screen Page: [●] (in the case of Euribor, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions accordingly)

(vii) ISDA Determination:

A. To Maturity Date:

- Floating Rate Option: [●]
- Designated Maturity: [●]

- Reset Date: [●]

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

- Floating Rate Option: [●]

- Designated Maturity: [●]

- Reset Date: [●]

(viii) Margin(s):

- To Maturity Date: [●] per cent. per annum
- From Maturity Date up to Extended Maturity Date [Not Applicable]/ [●] per cent. per annum *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*

(ix) Minimum Rate of Interest:

- To Maturity Date: [●] per cent. per annum
- From Maturity Date up to Extended Maturity Date [Not Applicable]/ [●] per cent. per annum *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*

(x) Maximum Rate of Interest:

- To Maturity Date: [●] per cent. per annum
- From Maturity Date up to Extended Maturity Date [Not Applicable]/ [●] per cent. per annum *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*

(xi) Day Count Fraction:

- To Maturity Date: *[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360]*  
 (see Condition 4 (*Interest*) for alternatives)



- From Maturity Date up to Extended Maturity Date [Not Applicable]/ [Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360] (see Condition 4 (*Interest*) for alternatives)  
[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
- (xii) Fall back provisions, rounding provisions and denominator relating to the interest on Floating Rate Covered Bonds:
  - To Maturity Date: [●]
  - From Maturity Date up to Extended Maturity Date [Not Applicable]/ [●]  
[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]

**19 Zero Coupon Covered Bonds Provisions**

- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price [●]
- (iii) Day Count Fraction in relation to late payment: [Condition 6.7 applies]  
(consider applicable day count fraction if not U.S. dollar denominated)

**PROVISIONS RELATING TO REDEMPTION**

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

	(b) Maximum Redemption Amount:	[●]
	(iv) Notice period (if other than as set out in the Terms and Conditions):	[●] <i>(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)</i>
21	Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
	(iii) Notice period	[●] <i>(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)</i>
22	Final Redemption Amount of each Covered Bond	[[●] per Covered Bond of [●] Specified Denomination/Other/See Appendix] <i>(NB – It shall correspond to the nominal amount)</i>
23	[Early Redemption Amount of each Covered Bond payable on an event of default]	[Applicable/Not Applicable]

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

24	Form of Covered Bonds:	Book-entry with Interbolsa settlement system. [Bearer covered bonds / registered covered bonds]
25	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] <i>(Note that this item relates to the place of payment and not Interest Period end dates to which item 17 (iii) relates)</i>
26	Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue	[Not Applicable/give details]

Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:

**27** Details relating to Instalment Covered Bonds:

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

(ii) Instalment Date(s): [Not Applicable/give details]

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

**DISTRIBUTION**

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

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

**31** If non-syndicated, name of relevant Dealer: [Not Applicable/give name and date of relevant agreement]

**LISTING AND ADMISSION TO TRADING APPLICATION**

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

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By: .....

Duly authorized

.....

Duly authorised



## PART B – OTHER INFORMATION

### 1 Listing

- (i) Listing: *[Irish Stock Exchange / None]*
- (ii) Admission to trading: *[Application has been made for the Covered Bonds to be admitted to trading on [Irish Stock Exchange / 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:
- [Moody's: [●]] and/or*
- [Fitch: [●]]and/or [DBRS: [●]]and/or*
- [Other RA: [●]]*
- (The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*
- [[Insert credit rating agency] is established in the European Union and is registered under Regulation (EC) no. 1060/2009, as amended.]*

### 3. [Notification]

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

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

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

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

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

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

**6. YIELD**

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

**7. Operational Information**

- ISIN Code: [•]
- Common Code: [•]
- Delivery: Delivery [against/free of] payment
- Names and addresses of additional Paying Agent(s) (if any): [•]

**8. Repurchase Commitment**

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

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into the bonds. The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Final Terms (or the relevant provisions thereof) will be incorporated by reference 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 SAVINGS BANK (CAIXA ECONÓMICA BANCÁRIA) WITH THE CAPACITY TO ISSUE COVERED BONDS PURSUANT TO THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS LAW ARE SECURED ON THE ASSETS THAT COMPRISE THE COVER POOL (AS DEFINED BELOW) MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.**

This Covered Bond is one of a Series (as defined below) of mortgage covered bonds issued by Caixa Económica Montepio Geral (the "**Issuer**") in accordance with the procedures set out in the Agency and Payments Procedures (as defined below).

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

The Covered Bonds have the benefit of a set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time, the "**Agency and Payments Procedures**") dated 18 November 2008 and made and agreed by Caixa Económica Montepio Geral (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

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

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

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

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

Agency and Payments Procedures and the applicable Final Terms, the applicable Final Terms will prevail.

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

- (a) those Covered Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;
- (b) those Covered Bonds in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Agent in the manner provided in the Agency and Payments Procedures (and, where appropriate, notice to that effect has been given to the Holders of Covered Bonds in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Covered Bonds;
- (c) those Covered Bonds which have been purchased and cancelled under these Terms and Conditions;
- (d) those Covered Bonds which have become prescribed under these Terms and Conditions.

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

The Covered Bonds are in bearer or in registered form as specified in the applicable Final Terms. 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 will be in book-entry form in Interbolsa's systems and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of 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 Covered Bonds recorded therein as well as its attached obligations and liabilities.

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

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

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

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

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



## 2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

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

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

## 3. STATUS OF THE COVERED BONDS

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

## 4. INTEREST

### 4.1 Interest on Fixed Rate Covered Bonds

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

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

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

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

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

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
  - (a) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or

shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

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

In these Terms and Conditions:

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

## 4.2 Interest on Floating Rate Covered Bonds

### (A) Interest Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

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

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

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

- (i) in any case where Specified Periods are specified in accordance with Condition 4.2.(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both: "

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

*(B) Rate of Interest*

*Floating Rate Covered Bonds*

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

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

London inter-bank offered rate (LIBOR) or the Euro-zone inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period, or (B) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-condition 4.2.(B), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

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

The Agency and Payments Procedures contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

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

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

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

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

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

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

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so

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

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

- (i) if “**Actual/365**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

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

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

markets are open for general business in London.

*(F) Certificates to be final*

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

**4.3 Accrual of interest**

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

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

- (A) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, and if the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3 (*Accrual of Interest*). In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in arrears on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.
- (B) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, and if the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.
- (C) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, in the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date. In case such Covered Bonds are extended to their respective Extended Maturity Date and such extension takes place after their respective Maturity Date, then,

for the purposes of this Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*), the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date; in case such extension occurs before such Maturity Date, then the principal amount outstanding shall be the Final Redemption Amount in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*). Furthermore, upon such an extension to their respective Extended Maturity Date, interest will be due on the relevant principal amount outstanding (as it may be reduced by reimbursements from time to time) at the interest rate provided for in the applicable Final Terms until those Covered Bonds are fully redeemed.

## **5. PAYMENTS**

### **5.1 Method of payment**

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5 (*Payments*), means the United States of America including the State, and District of Columbia, its territories, its possessions and other areas subject to its jurisdiction) or by cheque drawn on a US bank. In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

### **5.2 Payments in relation to Covered Bonds**

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

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the payment current-accounts held in TARGET2 by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

### **5.3 Payment Day**

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes,

Payment Day means any day which (subject to Condition 8 (*Prescription*)) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation; or
  - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

#### **5.4 Interpretation of principal**

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

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

#### **5.5 Reserve Account**

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



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

## **6. REDEMPTION AND PURCHASE**

### **6.1 Final redemption**

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

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

If Issuer Call Option is specified in the applicable Final Terms, the Issuer may, having given (unless otherwise specified, in the applicable Final Terms) not less than 30 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, the nominal amount of all outstanding Covered Bonds will be redeemed proportionally. For the avoidance of doubt, the exercise and/or settlement of any such call option right is subject to no Issuer Event (other than a Default of Payment Event not affecting the relevant Series) having occurred prior to such exercise or settlement, and in case such event has occurred prior to the settlement date that exercise shall be of no effect. For the purpose of verifying the occurrence of a Default of Payment Event in respect of the relevant Series of Covered Bonds, failure by the Issuer to repay principal on the relevant Issuer Call Option settlement date will be regarded as a failure to pay on the respective Maturity Date. For the sake of clarity, no principal may be repaid following the redemption resulting from the exercise of the Issuer Call Option established in this Condition until Series governed by Conditions 6.9 (*Pass-through Provision*) have been fully redeemed.

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

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 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 at any time during normal business hours of such Paying Agent, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent. For the avoidance of doubt, the exercise and settlement of any Investor Put Option is subject to no Issuer Event (other than a Default of Payment Event not affecting the relevant Series) having occurred prior to such exercise or settlement, and in case such event has occurred prior to the settlement date that exercise shall be of no effect. For the purpose of verifying the occurrence of a Default of Payment Event in respect of the relevant Series of Covered Bonds, failure by the Issuer to repay principal on the relevant Investor Put Option settlement date will be regarded as a failure to pay on the respective Maturity Date. For the sake of clarity, no principal may be repaid following the redemption resulting from the exercise of the Put Option established in this Condition, until Series governed by Conditions 6.9 (*Pass-through Provision*) have been fully redeemed.

#### **6.4 Instalments**

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

#### **6.5 Purchases**

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

#### **6.6 Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.5 (*Purchases*) above shall be cancelled by Interbolsa and cannot be held, reissued or resold.

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

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6.1 (*Final redemption*), 6.2 (*Redemption at the option of the Issuer (Call Option)*) or 6.3 (*Redemption at the option of the Holders of Covered Bonds (Put Option)*) above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

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

where:

**RP** means the Reference Price; and

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

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

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

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

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

- (A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds, provided that the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.
- (B) Such Extended Maturity Date, defined in the applicable Final Terms as applying to each Series of Covered Bonds, will apply if any of the following events (each, an "**Issuer Event**") takes place:
  - (i) Insolvency Event, in result of which all Series (which would otherwise be due on their respective Maturity Date) become due on their respective Extended Maturity Date, without prejudice to Condition 9 (*Events of Default and Enforcement*); and
  - (ii) Default of Payment Event, in result of which the Series where such default in payment occurred become due on its respective Extended Maturity Date.

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

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

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

- (C) After an Issuer Event, the Issuer may redeem all or any part of the principal amount outstanding of all or (in case of a Default of Payment Event) the relevant Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, in accordance with Condition 6.9 (*Pass-through provision*) below. The Issuer, or if applicable the SCI, shall give to the Holders of Covered Bonds (in accordance with Condition 11 (*Notices*)), the Agent

and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least 5 Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer, or the SCI, to notify such persons shall not affect the validity or effectiveness of any redemption of the Covered Bonds on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

- (D) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date, for the purposes of this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) the principal amount outstanding shall be the amount calculated in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*).
- (E) Any extension of the maturity of Covered Bonds under this Condition 6.8 shall be irrevocable. Where this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.
- (F) In the event of the extension of the maturity of Covered Bonds under this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*).
- (G) If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds that were extended to the Extended Maturity Date and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.
- (H) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further mortgage covered bonds.

## 6.9 Pass-through Provision

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

- (i) Expenses and Owed Hedging Payments due on such date;
- (ii) Amounts of Interest due on such date;
- (iii) Replenishment of the Reserve Account up to the Total Target Reserve Amount;
- (iv) Redemption of principal across all Series that have been subject to an Extended Maturity Date, if applicable, or, redemption of all Series that have not been subject to an Extended Maturity Date in the relevant Interest Payment Date, if principal is due on this Interest Payment Date;
- (v) Crediting the Programme Account or, if this has not yet been set-up, otherwise retained in the Cover Pool, provided that:
  - (a) Any payments under item (iv) above, while some but not all Covered Bonds have been extended to their respective Extended Maturity Date, may only be made to the extent

that, once made, the Issuer or the SCI will not breach the Overcollateralisation Percentage;

- (b) No funds debited from the Reserve Account may be used to make payments of Amounts of Interest due on such date, under (ii) above, in respect of Covered Bonds that have not been extended to their respective Extended Maturity Date;
- (c) Funds may be debited from the Reserve Account immediately following the occurrence of a Default of Payment Event resulting from non-payment of interest;
- (d) While any Covered Bonds have been extended to their respective Extended Maturity Date, any Cover Pool monies or assets may only be used in making payments in accordance with the above payments priority (without prejudice to the best-efforts sale obligation below and the accumulation of any such sale proceeds in the Programme Account or, if this has not yet been set-up, otherwise accumulated in the Cover Pool);
- (e) In case the relevant Issuer Event was a Default of Payment Event, then, when all the Covered Bonds which have been extended to their respective Extended Maturity Date thereunder have been fully reimbursed and no other Issuer Event has taken place, this Condition 6.9 (Pass-through Provision) will no longer apply, and
- (f) Once all Series of Covered Bonds have been redeemed in full, any remaining funds shall be paid to the Issuer.
- (g) For the sake of clarity, upon the application of this Condition 6.9 (*Pass-through Provision*) following the occurrence of a Default of Payment Event, payment by the Issuer of the defaulted payment does not grant the Issuer the possibility of, nor has as its consequence the, reversion of the application of Condition 6.9 (*Pass-through Provision*) as regards the Series where such default occurred and the pass-through provision set forth therein.

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

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

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

## **7. TAXATION**

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

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

Tax Authorities for the amount so withheld or deducted.

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

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the Holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1 (*Payments free of taxes*) above.

## **7.3 Taxing Jurisdiction**

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

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

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

## **8. PRESCRIPTION**

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

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

### **9.1 Insolvency Event**

Pursuant to the Covered Bonds Law, if an Insolvency Event in respect of the Issuer occurs, Conditions

6.8 (*Extension of Maturity up to Extended Maturity Date*) and 6.9 (*Pass-through Provision*) will apply. Notwithstanding the foregoing, pursuant to the Covered Bonds Law, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable at their Early Redemption Amount together with accrued interest. For the sake of clarity, the serving of an Acceleration Notice will supersede the provisions of Conditions 6.8 (*Extension of Maturity up to Extended Maturity Date*) and 6.9 (*Pass-through Provision*), the Covered Bonds becoming immediately due and payable as aforementioned.

If an Insolvency Event in respect of the Issuer occurs, the Holders of Covered Bonds enjoy, under the Covered Bonds Law, a special creditor privilege 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 October, the Credit Institutions General Regime and/or (if applicable) under the Code for the Insolvency and Recovery of Companies approved by Decree-law 53/2004, of 18 March 2004), all as

amended. Investors should see the *Insolvency of the Issuer* section.

## **9.2 Enforcement**

- (A) Following the approval of a Resolution as described in Condition 9.1 (*Insolvency Event*), the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.
- (B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the Holders of Covered Bonds of all Series.
- (C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

## **10. AGENT AND PAYING AGENTS**

- (A) The names of the Agent, the Paying Agent and their initial specified offices are set out below. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.
- (B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:
  - (i) there will at all times be an Agent;
  - (ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in an EU Member State;
  - (iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or, as the case may be, other relevant authority;
  - (iv) the Issuer will ensure that it maintains a Paying Agent in a member state of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC of 3 June, as amended, on the taxation and savings income or any other Directive or any law implementing or complying with, or introduced in order to conform to such Directive.

## **11. NOTICES**

All notices regarding the Covered Bonds shall be published in a manner which complies with the applicable listing rules of the Irish Stock Exchange and also with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Covered Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

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

## **12. MEETINGS OF HOLDERS OF COVERED BONDS**

- (A) The Portuguese Companies Code expressly applicable to Covered Bonds, pursuant to the Covered

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

- (B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever part of the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding.
- (C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; or (ii) if in respect to a Resolution regarding a Reserved Matter, at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting, 2/3 of the votes cast at the relevant meeting.

For the purposes of these Terms and Conditions, a "Reserved Matter" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series, or the conversion of such Covered Bonds into bonds or other obligations or securities of the Issuer or shares, bonds or other obligations or securities of any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; or (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii).

- (D) A Resolution approved at any meeting of the Holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the Holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the Holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*. A Written Resolution shall take effect as if it were a Resolution.
- (E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the Holders of Covered Bonds of all Series then outstanding.
- (F) Any such meeting to consider a Programme Resolution may be convened by the Issuer or the Common Representative or by Holders of Covered Bonds of any Series.
- (G) A Programme Resolution passed at any meeting of the Holders of Covered Bonds of all Series shall be binding on all Holders of Covered Bonds of all Series, whether or not they are present at the meeting.
- (H) In connection with any meeting of the Holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any



Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

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

- (A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the Holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such Holders of Covered Bonds by a Resolution or by a Written Resolution of such Holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.
- (B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has grounds for believing the repayment of such funds is not reasonably assured to it under the Covered Bonds Law or if it has not been provided with adequate indemnity against or security for such risk or liability. Notwithstanding any Programme Resolution or any other Resolution approved at any meeting or any Written Resolution of any Holders of Covered Bonds, the Common Representative may (i) refrain from taking any action until it has been provided with sufficient funds or adequate indemnity against or security for any liability it may incur as a result of any such actions and (ii) refrain from doing anything which might in its opinion be contrary to any law of any jurisdiction or which might otherwise render it liable to any person and (iii) do anything which is in its opinion necessary to comply with any such law, and in no circumstances shall be liable to the Holders of Covered Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

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

#### **14.1 Maintenance of overcollateralisation**

For so long as the Covered Bonds are outstanding, and regardless of the time of issue of the Covered Bonds, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulatory Notices) of the Cover Pool maintained by the Issuer (the "**Overcollateralisation Percentage**") shall at all times be a minimum of the higher of (i) 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 minimum legal overcollateralisation percentage established in the law), and (ii) 1 divided by the Asset Percentage.

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

As of 1 July 2016, the Asset Percentage is 84.75 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said increase; or (iii) a written communication by the Rating Agencies that, having concluded the review of said increase, it does not consider a confirmation to be due; or (iv) within 30 days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies. Without prejudice to the above, and for the avoidance of doubt, the Asset Percentage increase will always require Moody's prior confirmation, whilst the alternatives indicated above in items (ii) to (iv) will only be available regarding the remaining Rating Agencies. Any change to the Asset Percentage shall be disclosed by the Issuer on the website of the Irish Stock Exchange and of the CMVM and the Asset Percentage shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds.

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

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

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

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

#### **14.2 Issuer Covenants**

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

- (A) *Loan to Value*: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80 per cent. of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60 per cent. of the Current Property Value, in case of a Property intended primarily for commercial purposes;
- (B) *Asset Cover*: the aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool;
- (C) *Average Maturity*: the remaining average Maturity of all outstanding Covered Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;
- (D) *Interest Cover*: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;
- (E) *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 Regulatory Notices (in particular Regulatory Notice 5/2006 and Regulatory Notice 6/2006);
- (F) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) in accordance with the Covered Bonds Law and the applicable Bank of Portugal Regulatory Notices, as well as with all necessary elements and information relating to any other matters which the Cover Pool Monitor shall monitor in accordance with these Terms and Conditions;
- (G) *Mortgage Credits*: the Mortgage Credits as of the date when they are included in the Cover Pool are not Non-Performing Mortgage Credits; and
- (H) *Liabilities*: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yield curve.

## 15. FURTHER ISSUES

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

## 16. GOVERNING LAW AND JURISDICTION

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

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

## 17. DEFINITIONS

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

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

**“Agency and Payments Procedures”** means the set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time) dated 18 November 2008 and made and agreed by Caixa Económica Montepio Geral and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

**“Agent”** means Caixa Económica Montepio Geral, with head office at Rua Áurea, 219-241, 1100-062 Lisbon and any successor agent appointed by the Issuer in accordance with the Agency and Payments Procedures.

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

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

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

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

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

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

“**Common Representative**” means **Citicorp Trustee Company Limited** acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement or any successor common representative appointed by a Meeting of the Holders of Covered Bonds.

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

“**Cover Pool Monitor**” means KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Avenida Praia da Vitória, 71-A, 11.º, 1069-006 Lisboa.

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

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

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

“**DBRS**” means DBRS Ratings Limited.

“**Default of Payment Event**” means, in respect a Series of Covered Bonds, if such Series has not been repaid in full on its Maturity Date or on the following two Business Days, or if interest due under that Series has not been paid on any Interest Payment Date or on the following five Business Days;

“**Euroclear**” means Euroclear Bank SA/NV

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

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

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

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

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

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

“**Instruction 13/2006**” means the regulatory instruction (“*Instrução*”) no. 13/2006 issued by the Bank of

Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

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

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

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

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

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

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

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

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

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

**“Maturity Date”** has the meaning given in the relevant Final Terms. **“Moody's”** means Moody's Investors Service Ltd.

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

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

- (a) pecuniary receivables not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;
- (b) mortgage credits secured by junior mortgages provided all Mortgage Credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;
- (c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

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

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

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

- (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to «A-» or equivalent, and which will include, for the avoidance of doubt, any funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**“Reserved Matter”** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series, or the conversion of such Covered Bonds into, shares, bonds or other obligations or securities of the Issuer or shares, bonds or other obligations or securities of any other person or body

corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; or (vi) to amend this definition.

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

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

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

“**Stock Exchange**” means the Irish Stock Exchange or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

“**TARGET Day**” means any day on which the TARGET2 System is open.

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

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

“**Tax Authority**” means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

“**Tax Deduction**” means any deduction or withholding on account of Tax.

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

“**Total Target Reserve Amount**” has the meaning given in Condition 5.5 (*Reserve Account*).

“**Value**” means:

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



## CHARACTERISTICS OF THE COVER POOL

### INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

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

### ISSUER REQUIRED TO MAINTAIN COVER POOL

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

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

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

### ELIGIBILITY CRITERIA FOR ASSETS FORMING THE COVER POOL

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

#### *Mortgage Credits Eligibility Criteria*

- (a) pecuniary receivables not yet matured, which are neither subject to conditions, nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;
- (b) mortgage credits secured by junior mortgages provided all mortgage credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;
- (c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in each case together with a mortgage counter guarantee evidencing (a) or (b) above.

#### *"Other Assets" Eligibility Criteria:*

The following assets may also be included in the Cover Pool as Other Assets:

- (a) deposits with the Bank of Portugal, in cash or in securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the EU member states whose currency is the euro);
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to «A-» or equivalent, and which will include, for the avoidance of doubt, any funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal

requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and

- (c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulations.

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

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

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

#### **HEDGING CONTRACTS**

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

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

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

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

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

Under the terms of the Hedging Contracts entered into with the Hedge Counterparty, if the rating of the Hedge Counterparty falls below the relevant applicable ratings as set out in such Hedging Contracts, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with the ratings required by the relevant rating agency;

(iii) procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action so that, in respect of the relevant rating agency, the then ratings of the Covered Bonds following such action are not

lower than the ratings immediately prior to the downgrade of the Hedge Counterparty. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

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

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

The Hedging Contracts will be governed by English law.

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

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

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

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

#### **OVERCOLLATERALISATION**

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

Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to guarantee that the Value of the Cover Pool maintained by the Issuer shall at all times be a minimum of the higher of (i) 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 and (ii) 1 divided by the Asset Percentage. For the purposes above, the "Asset Percentage" means the lower of 100 per cent. and any other percentage determined by the Issuer from time to time. As of 1 July 2016, the Asset Percentage is 84.75 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said increase; or (iii) a written communication by the Rating Agencies that, having concluded the review of said increase, it does not consider a confirmation to be due; or (iv) within 30 days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies. Any change to the Asset Percentage shall be disclosed by the Issuer on the website of the Irish Stock Exchange and the CMVM and the Asset Percentage shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds.

See *Terms and Conditions of the Covered Bonds*.

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

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

- (b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, including matured and accrued interest;
- (c) in relation to any Other Assets:
  - (i) deposits shall be accounted for according to their aggregate amount together with any accrued but unpaid interest; and
  - (ii) securities eligible for Eurosystem credit transactions shall be accounted for a value which is obtained in accordance with the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

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

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

### **COMPLIANCE WITH FINANCIAL REQUIREMENTS**

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

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

### **VALUATION OF COVER POOL**

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

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to form the Cover Pool. These requirements are set out in Regulatory Notice 6/2006.

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

##### *General Overview*

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool should be determined in accordance with the rules and criteria set out in Regulatory Notice 5/2006 of the Bank of Portugal. Such value corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (i) the sustainable long term characteristics of such Property, (ii) the standard conditions of the local market, (iii) the current use of the relevant Property, and (iv) any alternative uses of the Property in question.

Pursuant to the requirements of Regulatory Notice 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the

market value of such Property. For these purposes, the “**market value**” of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (i) the Property is publicly put on sale, (ii) the market conditions allow for a regular transfer of such Property, and (iii) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

#### *Valuation by expert*

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

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

- (a) the valuations were carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Group;
- (b) the valuations were subject to a written report from the valuation expert;
- (c) the Properties had been valued in light of the corresponding market value, or in light of the value of the mortgaged asset value, as established by Regulatory Notice 5/2006; and
- (d) there has been no evidence that the relevant Property was over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the valuation expert in the Property subject to the valuation; (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

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

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January in each year, with reference to 31 December of the previous year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

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

#### *Methods of valuation*

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

- (a) Cost method;
- (b) Income method; or

- (c) Comparison method.

#### *Valuation report*

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

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

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

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

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

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

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

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

#### *Valuation of Other Assets*

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

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

## ***Insurance***

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

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

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

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

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

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

Pursuant to article 4.3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code provided by the Bank of Portugal. The key to such code is deposited with the Bank of Portugal, which has set out in Regulatory Notice 8/2006 the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

### ***Special creditor privilege***

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

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

## **INFORMATION ON THE COVER POOL**

The Issuer publishes quarterly investor reports on the outstanding Covered Bonds, including key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and other Assets (including the Reserve Account), as at the last business day of each calendar quarter and the applicable Overcollateralisation. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. Such reports are available at: <http://www.montepio.pt>

## ISSUER EVENTS

### INSOLVENCY EVENT

The following is a brief overview of the legal provisions regarding the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer. Prospective investors should seek their own independent legal advice.

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

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

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

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

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

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

- (i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;
- (ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool, including, without limitation:
  - a. selling the Mortgage Credits comprised in the Cover Pool;
  - b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool;
  - c. performing all other acts and administrative services in connection with such Mortgage Credits and related Mortgages and Additional Security;
- (iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and
- (iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The



independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with article 34 of the Covered Bonds Law.

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

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

#### **DEFAULT OF PAYMENT EVENT**

The Default of Payment Event shall occur if i) a Series of Covered Bonds has not been repaid in full on its Maturity Date or on the following two Business Days, or ii) if interest due under that Series has not been paid on any Interest Payment Date (subject to any applicable grace period or the availability of any Reserve Amount) or on the following five Business Days, and therefore, the affected Covered Bonds shall be treated and will assume the form of pass-through covered bonds.

## COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

**Citicorp Trustee Company Limited**, acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom, has been appointed by the Issuer as representative of the holders of the Covered Bonds, pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement.

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

The Common Representative should be independent and may not be associated with a group of specific interests in the company nor in any circumstance which is likely to affect their impartiality when analysing or making decisions, including by virtue of: a) it being the holder or acting on behalf of the holder of holdings equal to or greater than 2 per cent. of the share capital of the Issuer; b) being in a controlling or group relationship with the Issuer; c) providing services of financial or legal nature to the Issuer, for the issue of securities, or to other financial intermediaries or promoters related with the issue;

d) benefiting from any advantages from the company; e) serving as directors in the Issuer and in any entity controlling or having a group relation with the Issuer; f) rendering services or having a significant commercial relationship with the Issuer; g) exercising functions in competing entities, or that act on their behalf or represent any interests of such entities; h) being relative to a person prevented from exercising these functions or with a person with a significant commercial relationship with the company.

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

## **COVER POOL MONITOR**

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

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

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of interests within the Issuer and is not in a position that hinders its independent analysis and decision making process. In particular, such independent auditor shall not (i) either directly or on behalf of a third party, hold 2 per cent. or more of the share capital of the Issuer, or (ii) have been re-elected a member of the Issuer's audit bodies for more than two terms (either consecutive or not). For this purpose, a term corresponds to a period of 3 (three) 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 18 November 2008, as amended, the Issuer appointed KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A. as Cover Pool Monitor. KPMG is registered with the CMVM under registration number 9098.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool Monitor, the resignation of the Cover Pool Monitor and the replacement by the Issuer of Cover Pool Monitor.

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

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer of the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulatory Notices in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenant*), including in respect of the operation of the Reserve Account. The Cover Pool Monitor is also required to monitor the Reserve Account required level, on a monthly basis.

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

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulatory Notices, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover

Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor will prepare a monthly 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 or confirming full compliance therewith, in a form and with such contents satisfactory to the Issuer.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the Requirements of the Cover Pool, including in respect of the operation of the Reserve Account, are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arranger, the Common Representative and the relevant Dealers of the contravention or 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.

## **RESERVE ACCOUNT BANK**

### **APPOINTMENT OF A RESERVE ACCOUNT BANK**

The Programme requires that the Issuer appoints a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by law (currently, “A-”).

### **ROLE OF THE RESERVE ACCOUNT BANK**

Pursuant to the Reserve Account Agreement, dated 7 July 2016 the Issuer appointed Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services.

The Reserve Account Agreement rules the creation, operation and maintenance of the Reserve Account, on or about 7 July 2016, as amended and/or supplemented and/or restated from time to time.

### **DUTIES OF THE RESERVE ACCOUNT BANK AND RESERVE ACCOUNT**

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

The amount deposited in the Reserve Account shall be available on any interest payment date towards the payment of interest due on the Pass Through bonds to the extent that there are insufficient available funds.

### **REMUNERATION AND RESERVE ACCOUNT REPLACEMENT**

In accordance with the Reserve Account Agreement, the Reserve Account Bank shall be remunerated by the Issuer for its services as Reserve Account Bank, in terms of fees and commissions, separately agreed between the Issuer and the Reserve Account Bank.

The Issuer may replace the Reserve Account with a liquidity facility of an equivalent size. This liquidity facility will be subject to confirmation that the credit ratings assigned to the Covered Bonds by the Rating Agencies will not be reduced, removed, suspended or placed on credit watch and in any case the relevant liquidity facility provider's credit rating shall meet the minimum rating required by law (currently, “A-”).

## REPURCHASE COMMITMENT

If the repurchase commitment is specified as applicable in the Final Terms relating to a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on its Repurchase Date at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms of such particular Series of Covered Bonds (the “**Repurchase Price**”), if so requested by any holders of such Series which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to ten Business Days after the Maturity Date (the “**Repurchase Commitment**”).

The Repurchase Commitment shall be provided at the Issue Date in a letter issued to the benefit of the holders of certain Series of Covered Bonds, which will be acknowledged on behalf of all such holders by the Common Representative, in the form attached hereto. For the sake of clarity, this acknowledgment creates only obligations on the Issuer and no liability whatsoever shall attach to the Common Representative as a result of having acknowledged this document.

The Repurchase Commitment does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with the Repurchase Commitment will not constitute an event of default under the Terms and Conditions. The Repurchase Commitment is a senior unsecured obligation of the Issuer and noncompliance by the Issuer with this undertaking will, nonetheless, constitute a default in respect of the Issuer's senior unsecured obligations vis-à-vis the Qualified Investors holding the relevant Series of Covered Bonds who have exercised their right to request the Issuer to buy the relevant Covered Bonds. Such Qualified Investors holding the relevant Series of Covered Bonds will have recourse to the general legal remedies applicable to breach of obligations under Portuguese law. For the avoidance of doubt, a breach of the Repurchase Commitment will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

The right of the Qualified Investors holding the relevant Series of Covered Bonds to request the Issuer to buy the Covered Bonds they hold pursuant to the Repurchase Commitment shall be exercised individually by each Qualified Investor holding the relevant Series of Covered Bonds, by delivering to the Affiliate Member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a “**Repurchase Notice**”), no less than 10 (ten) and no more than 60 (sixty) days after the Maturity Date. Each such Qualified Investor holding the relevant Series of the Covered Bonds shall so submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such Qualified Investor holding the relevant Series of Covered Bonds shall also represent and warrant (in the Repurchase Notice), as a condition for exercising its repurchase request, its capacity as a Qualified Investor (as defined below). If Qualified Investors hold the Covered Bonds through Euroclear and Clearstream, Luxembourg (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of this commitment, “**Qualified Investor**” (“investidor qualificado”) shall mean any qualified investor in accordance with and for the purposes of article 30 of the Portuguese Securities Code (Código dos Valores Mobiliários) and/or in accordance with and for the purposes of other applicable laws, to whom an offer of securities can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction.

For purposes of this commitment, Repurchase Date will be the date which falls on the 90th (ninetieth) day after the Maturity Date of the relevant Series of Covered Bonds.

From:  
**Caixa Económica Montepio Geral**  
[Address]  
(the “**Issuer**”)

To:  
**Citicorp Trustee Company Limited**  
[Address]  
(the “**Common Representative**”)

[Lisbon], [Date]<sup>4</sup>

**Ref.: €5,000,000,000 Conditional Pass-Through Covered Bonds Programme – Repurchase Commitment – Series with ISIN no. [●]**

Dear Sirs,

We make reference to our €5,000,000,000 Conditional Pass-Through Covered Bonds Programme and the Covered Bonds issued thereunder with ISIN no. [●] (hereinafter, the “**Series**”) and hereby commit to repurchase the Covered Bonds of the Series in accordance with the terms and conditions set forth in the Base Prospectus dated [●] approved in connection with this Programme and the Final Terms of the Series.

Accordingly, we irrevocably and unconditionally undertake to repurchase the Covered Bonds of the Series on its Repurchase Date [at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms] (the “**Repurchase Price**”), if so requested by any holders of the Series which are Qualified Investors and subject to this Series of Covered Bonds not being redeemed up to 10 (ten) Business Days after the Maturity Date (the “**Repurchase Commitment**”).

The right of Qualified Investors holding Covered Bonds of the Series to request the Issuer to buy the Covered Bonds they hold pursuant to this Issuer's undertaking shall be exercised individually by each Qualified Investor, by delivering to the Affiliate Member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a “**Repurchase Notice**”), no less than 10 (ten) and no more than 60 (sixty) days after the Maturity Date. Each such Qualified Investor holding Covered Bonds of the Series shall submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such Qualified Investor holding Covered Bond of the Series shall, as a condition for exercising its repurchase request, represent and warrant (in the Repurchase Notice) its capacity as Qualified Investor (as defined herein). If Qualified Investors hold the Covered Bonds through Euroclear and Clearstream, Luxembourg (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of the Repurchase Commitment, “**Qualified Investor**” (“investidor qualificado”) shall mean any qualified investor in accordance with and for the purposes of article 30 of the Portuguese Securities Code (Código dos Valores Mobiliários) and/or in accordance with and for the purposes of other applicable laws, to whom an offer of securities can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction.

For purposes of this the Repurchase Commitment, Repurchase Date shall be the date which falls on the 90th (ninetieth) day after the Maturity Date of the relevant Series of Covered Bonds.

The Repurchase Commitment does not form part of the Terms and Conditions of the Covered Bonds. It will be an unsecured obligation of the Issuer only and, for the avoidance of doubt, it will not be secured by

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<sup>4</sup> Note: to be dated the same date as the relevant Final Terms.

the Assets comprised in the Cover Pool. Failure by the Issuer to comply with the Repurchase Commitment will not constitute an event of default under the Terms and Conditions and will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

This Repurchase Commitment is provided solely for the benefit of Qualified Investors, while non-qualified investors should be aware that they will not benefit from this Repurchase Commitment.

Terms and expressions used in this document and not otherwise defined shall have the meaning ascribed to them, directly or by reference, in the Base Prospectus referred to above.

Best Regards,

For and on behalf of Caixa Económica Montepio Geral

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*Name:*

*Duly Authorised*

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*Name:*

*Duly Authorised*

***We hereby acknowledge receipt of this document.***

For and on behalf of Citicorp Trustee Company Limited

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*Name:*

*Duly Authorised*

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*Name:*

*Duly Authorised*

For the sake of clarity, this acknowledgment creates only obligations on the Issuer and no liability whatsoever shall attach to the Common Representative as a result of having acknowledged this document.



## DESCRIPTION OF THE ISSUER

### Introduction to Montepio

Caixa Económica Montepio Geral (“CEMG”, “Montepio” or the “Issuer”) was created on 24 March 1844 for an indefinite period and has a total equity (comprised of institutional capital and a participation fund) of €2,170,000,000. The issue of units representative of its participation fund for a total of €400,000,000 represents a relatively new development, with the remaining €1,770,000,000 institutional capital wholly owned by its founder Montepio Geral - Associação Mutualista (“MGAM”).

Following the Extraordinary General Meeting held on 22 November 2016 and resumed on 13 December 2016 and 6 January 2017, the transformation of CEMG from a savings bank annexed to MGAM into a full service savings bank (*Caixa Económica Bancária*), adopting the form of a Public Limited Company (*Sociedade Anónima*) (pursuant to the provisions of article 6 of Decree-Law no. 190/2015) is underway.

The transformation of the Issuer into a Public Limited Company (*sociedade anónima*) was approved in an Extraordinary General Meeting of the Issuer, held on 4 April 2017, as well as the grant to the Executive Board of Directors of the Issuer of all necessary powers to carry out all the necessary actions towards the implementation of the said transformation into a Public Limited Company (*sociedade anónima*). The Issuer further informed in such Extraordinary General Meeting that it had been notified that the Bank of Portugal had given a favorable opinion regarding the compliance of the Information Report (*Relatório Informativo*) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (*caixa económica bancária*) into a Public Limited Company (*sociedade anónima*).

The aforementioned Extraordinary General Meeting concurrently approved i) the full scope of the new Articles of Association; and ii) that the share capital amounting to €2,170,000,000 of the transformed entity shall comprise 2,170,000,000 nominative, book-entry shares, with a nominal value of €1 (one euro) each; €1,770,000,000 will be converted from the institutional capital and shall be registered to MGAM, whereas €400,000,000 will result from the termination of the Participation Fund (“*Fundo de Participação*”) and the respective transformation into common shares registered on behalf of the Participation Fund's holders.

MGAM is a “private institution of social support” (*i.e.* a mutual benefits association) whose principal objects are to promote and develop initiatives designed to ensure the social protection and welfare of its 632,931 mutual members (as at 31 December 2015), their families and other beneficiaries nominated by them. The welfare schemes which MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes. It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

In accordance with the Credit Institutions General Regime (approved by Decree-Law 298/92 of 31 December 1992, as lastly amended by Decree-Law no. 190/2015, of 10 September), CEMG is a credit institution, authorised to operate as a “universal bank”, in accordance with Decree-Law 136/79 of 18 May 1979 (as last amended by Decree-Law 188/2007 of May 2007) and it ranks sixth in the Portuguese banking system (as at 30 June 2016), as far as total net assets are concerned (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Following the entry into force of the Savings Banks Act, CEMG is characterised as a savings bank (*caixa económica bancária*), authorised in such capacity to pursue all the businesses permitted to banks in Portugal.

The rights of MGAM as the sole holder of the institutional capital of the Issuer are contained in the Articles of Association of the Issuer and the Issuer will be managed in accordance with those Articles of Association and with the provisions of the Portuguese Companies Code. Moreover, it should be noted that pursuant to the transformation of the Issuer into a Public Limited Company, MGAM, as the sole holder of the Issuer's institutional capital and the sole underwriter of the second issue of the securities (*Unidades de*

*Participação*) representing the Participation Fund in an amount of €200,000,000, is the majority holder of the voting rights.

The CEMG Group is integrated in the Montepio Group, owned by MGAM. Collectively, these entities not only offer a broad and diversified range of banking and financial products and services, but also contribute with their earnings to the mutualist goals.

The CEMG Group consists of, in addition to CEMG (on an individual basis), 3 domestic entities: Montepio Crédito, Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A.; and Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A. – incorporated under Montepio Holding, SGPS, S.A. and fully owned by CEMG. Still in the domestic market, CEMG has a small qualified holding in HTA-Hotéis, Turismo e Animação dos Açores, S.A., whose accounts are consolidated by the equity method, as well as a 100% capital participation in SSAGINCENTIVE, S.A.. At an international level, CEMG holds majority holdings in Banco MG - Cabo Verde, Sociedade Unipessoal, S.A. and in Finibanco Angola, S.A.. In December 2014, CEMG concluded the acquisition of a stake in Banco Terra in Mozambique, where it now holds management control. The CEMG Group also consolidates the Complementary Groupings of Companies: Montepio Gestão de Ativos Imobiliários, ACE (Consolidation by the Equity Method).

Montepio takes a major role in the implementation of the Group's business strategy, as it uses its nationwide branch network, comprising 331 branches in Portugal as at 30 September 2016 (421 branches as at 31 December 2015). Montepio's commercial network is further complemented by a network of electronic channels, together with its presence in various overseas Portuguese communities (including six representative offices outside of Portugal). Montepio is also present in Angola, through Finibanco Angola (Montepio holds an 81.6 per cent. share interest in Finibanco Angola), which had a retail network of 21 branches as at 30 September 2016. At the end of 2014, under its growth and geographical expansion strategy, Montepio acquired a qualifying holding of 44.5 per cent. in the capital of Banco Terra, S.A. ("**Banco Terra**") (45.8 per cent. as of 30 September 2016), a Mozambican bank, adding 9 more branches to Montepio's international presence, which are maintained to this date.

Montepio is a public listed company and is registered at the Lisbon Commercial Registry Office (1st Section) under the same Registration and Tax Identification number 500 792 615 and is domiciled in Portugal, having its registered office at Rua Áurea, 219-241, 1100-062 Lisbon, Portugal, with telephone number +351 213 248 000.

## **History**

In 1840, Francisco Manuel Alvares Botelho established Montepio dos Empregados Públicos, a mutual benefit association intended to assist its members through periods of unforeseen financial hardship, caused by illness, disability or death. Its name was changed twice, firstly to Montepio Geral, Associação de Socorros Mútuos and in 1844, it was changed to Montepio Geral Associação Mutualista (MGAM), the name it still bears today.

In 1844, MGAM created Caixa Económica de Lisboa, (which was renamed Caixa Económica Montepio Geral on 23 April 1991) with the aim of attracting small-scale savings and providing credit facilities. MGAM and its subsidiaries and affiliates offer a wide variety of banking, insurance and fund management products from CEMG's branches throughout Portugal. Originally, CEMG was run as a division of MGAM but, by the late 1930s, the two organisations had become separate legal entities. In accordance with Decree-Law 460/77 of 7 November 1977 (as last amended by Decree-Law 391/2007 of 13 December 2007), MGAM is a "collective person of public interest" which was exempt from some taxes, including corporate revenue tax until the state budget for 2012 removed this exemption with effect from January 2012.

In order to broaden the offer of financial services to its customer base, in 1986, MGAM decided to found Lusitania Companhia de Seguros, S.A. ("**Lusitania**"). Lusitania is a general insurance company whose products are sold through Montepio's branches and through its own network. Lusitania Vida, Companhia de Seguros, S.A. ("**Lusitania Vida**"), which offers life insurance products, was formed in 1987.

Pursuing its strategy of broadening its commercial offer and the diversification of its income sources, in

1988, MGAM established Futuro – Sociedade Gestora de Fundos de Pensões, S.A. (“**Futuro**”), enabling the MGAM Group to expand into the pension fund management business.

As part of its investment management business, the MGAM Group holds Montepio Gestão de Activos, S.A., a specialized company in the management of mutual funds, and wealth management, and Montepio Gestão de Activos Imobiliários, ACE, a specialized company in the management of real estate funds.

In 1995, CEMG acquired certain limited assets and liabilities from a small savings bank in the Azores, Caixa Económica Açoreana. S.A. This acquisition, allowed CEMG to establish its presence in the Azores Autonomous Region.

Additionally, in January 1997, CEMG acquired certain assets and liabilities of another small savings bank, Caixa Económica Comercial e Industrial (“**CECI**”). In 2009, Lusitania Companhia de Seguros, S.A. acquired the insurance companies Real and Mutuamar, which allowed it to double its market share in the real insurance business, thereby achieving a market share in line with the MGAM Group's objectives.

In 2010, MGAM acquired the whole of Finibanco-Holding, SGPS, S.A. through a friendly public takeover bid. The main goals of the transaction were the expansion of the Group's mutualism activities and the diversification of its business activities.

In order to take the necessary steps to achieve consolidation, on 31 March 2011, Montepio acquired from MGAM, through a share purchase agreement, 100 per cent. of the share capital and of the voting rights of Finibanco-Holding, SGPS, S.A. (now Montepio Holding, SGPS, S.A.) and, indirectly, all of the share capital and the voting rights of Finibanco, S.A. (now Montepio Investimento, S.A.), as well as those of Finicrédito – Instituição Financeira de Crédito, S.A. (now Montepio Crédito, Instituição Financeira de Crédito, S.A.) and those of Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A. (now Montepio Valor – Sociedade Gestora de Fundos, S.A.).

Finibanco Holding, SGPS, S.A., the holding company of the Portuguese financial group “Finibanco” (the “**Finibanco Group**”), comprised a number of subsidiaries which included, among others, a bank (Finibanco, S.A. (“**Finibanco**”)), an Angolan bank (Finibanco Angola, S.A. (“**Finibanco Angola**”)), a credit financial institution (Finicrédito, Instituição Financeira de Crédito, S.A.) and an asset management company (Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A.).

Under the share purchase agreement, Montepio indirectly acquired 81.6 per cent. of the share capital and the voting rights of the Angolan bank, Finibanco Angola, S.A.. As a result of these acquisitions, Montepio's consolidated supervision perimeter now encompasses all the aforementioned companies.

As at December 2013, under the restructuring of Group MGAM a reorganization of the financial investments associated with the insurance and pension sectors was undertaken. In this context, on 27 December 2013 was created Montepio Seguros, S.G.P.S., S.A. (“**Montepio Seguros**”) in order to manage the equity of the mentioned sectors. CEMG sold the shares directly held in Futuro – Sociedade Gestora de Fundos de Pensões, S.A., Lusitania Vida – Companhia de Seguros, S.A. and Lusitania – Companhia de Seguros, S.A. to Montepio Seguros. Additionally, CEMG acquired 33.65 per cent. of the capital of Montepio Seguros.

2013 proved a landmark year for Montepio due to some of its capital becoming open to public investment for the first time. On 25 November 2013, Montepio launched an initial public offer (“**IPO**”) of €200 million Securities (*Unidades de Participação*) representative of its participation fund (*Fundo de Participação*) (“**Participation Fund**”). On 17 December 2013, the Securities were admitted to listing on Euronext Lisbon after the Regulated Market Special Session.

On 2 December 2014, Montepio Holding SGPS, S.A. completed all the required legal acts to acquire a stake of 44.6 per cent. in Banco Terra's share capital, a financial institution under Mozambican law, assuring the management control following an agreement with the remaining shareholders of the bank (Rabobank, based in the Netherlands, holding the same equity participation as Group CEMG; Norfund, also known as the Norwegian Investment Fund for Developing Countries, with an equity participation of

8.4 per cent.; and GAPI-SI, S.A., a financial institution that has the aim of contributing to economic and social development of Mozambique, with an equity participation of 2.5 per cent.).

### Current Activities

The Issuer operates as an universal bank offering a wide range of banking and financial products and services, such as mutual, real estate and pension funds, insurance (life and non-life), investment management services and the provision of credit cards, aimed at catering to all its customers' financial needs. The Issuer has also been developing international operations, especially by the provision of foreign currency to its Portuguese customers, documentary credits and payment orders, focusing mainly on attracting deposits from non-resident Portuguese nationals. To this end, Montepio Group currently has also six representative offices in Paris, Toronto, Geneva, Frankfurt, Newark and London.

Since November 2014, the geographical presence of the Montepio Group has extended to Mozambique, following the acquisition of a qualified holding of 44.5 per cent. in the capital (45.8 per cent. at 31 December 2015) and related control following an agreement with the strategic shareholders of Banco Terra. The bank is set to become an important agent in the development and economic growth of Mozambique, targeting the retail and corporate areas, in particular agri-business customers, mortgage loans and SMEs. As a result, since the end of 2014, the international activity of the Montepio Group is now represented by three entities – Banco Montepio Geral Cabo Verde, S.A., Finibanco Angola, S.A. and Banco Terra, S.A..

The Issuer is undergoing a reorganization and resizing process seizing strategic complementarity, comprising the international activity. Along with the implementation of strategic action measures that will allow it to refocus and reposition the institution in its natural market, it will offer a wide range of products and services and a differentiated customer relationship, acknowledged by its stakeholders.

The Issuer's strategic plan for 2016-2018 aims at ensuring sustainability and strengthening capital and liquidity levels, defining as priorities the reinforcement of the value proposition, the platform efficiency, the reinforcement of risk management, the recovery and management of liquidity, human capital management, capital management, and institutional positioning.

### Analysis of Issuer's financial performance

Consolidated Net Income in September 2016 reached €-67.5 million, compared to the net income of €-59.5 million recorded in September 2015.

In September 2016 Net interest income amounted to €201.1 million compared with €182.4 million in September 2015. This performance was influenced by the application of a strict repricing policy and the reduction of wholesale and retail debt, which was substituted by less costly sources of funding. As a result, commercial net interest income and net interest income associated to securities and other financial instruments grew €12.8 million (+6.6 per cent.) and €5.9 million, respectively. These positive signs continued to be confirmed in the 3rd quarter of the year, during which net interest income reached €73.8 million, corresponding to a 10.7 per cent. increase in relation to the previous quarter. This growth occurred in a context of historically low interest rates, which continues to constrain the performance of financial intermediation.

	(thousand Euros)	
	Sep-16	Sep-15
<b>Fee and commission income</b>	<b>101,228</b>	<b>100,289</b>
From banking services	68,734	67,655
From transactions order by third parties	15,504	16,882
From insurance activity	6,234	5,256
From guarantees provided	5,610	6,186
From commitments to third parties	2,117	2,616
Other fee and commission income	3,029	1,694
<b>Fee and commission expense</b>	<b>25,357</b>	<b>24,820</b>
From banking services rendered by third parties	14,464	15,507

	(thousand Euros)	
	Sep-16	Sep-15
From transactions with securities	394	396
From commitments from third parties	-	3
Other fee and commission expense	10,499	8,914
<b>Net fee and commission income</b>	<b>75,871</b>	<b>75,469</b>

In September 2016 Net fee and commission income from services provided to customers, reached €75.9 million, an increase of 0.5 per cent. compared to €75.5 million as of September 2015.

	(thousand Euros)	
	Sep-16	Sep-15
Results from financial assets and liabilities at fair value through profit or loss	-27,604	9,384
Results from financial assets available-for-sale	40,861	102,066
Results from currency revaluation	13,124	13,451
<b>Results from financial operations</b>	<b>26,381</b>	<b>124,901</b>

The results from financial operations amounted to € 26.4 million, compared to € 124.9 million in the same period of the previous year, which incorporated € 76.6 million derived from the sale of sovereign debt securities, in contrast to € 3.1 million recorded up to 30 September 2016.

	(thousand Euros)	
	Sep-16	Sep-15
Loans impairment	129,254	202,617
Other financial assets impairment	31,864	6,720
Other assets impairment and Other provisions	4,148	4,177
<b>Total Impairment</b>	<b>165,266</b>	<b>213,514</b>

The maintenance of a prudent policy of assessment of the risk levels of the asset portfolio was reflected in the 22.6 per cent. year-on-year decrease of provisions and impairments (€-48.2 million) to €165.3 million. This performance was particularly influenced by the 36.2 per cent. reduction in credit impairments to €129.3 million, reflecting the stringent policy of risk analysis in credit concession. This prudent action led to a substantial reduction in the cost of credit risk from 1.6 per cent., at the end of the 3rd quarter of 2015, to 1.1 per cent. as of 30 September 2016, reflecting the improvement in impairment losses in credit.

Impairments constituted for securities showed an increase of €25.1 million, as a result of the devaluation of financial assets of the telecommunications sector, which occurred in the 1st half of 2016, while impairments for other assets decreased 0.7 per cent..

As at 30 September 2016, the Issuer's consolidated total assets net of provisions and depreciation were €21,225.9 million, registering a decrease of 2.7 per cent. compared to September 2015, mainly due to the reduction of the loans to customers (net of impairments) in an amount of €366.6 million, as a consequence of subdued demand, in a backdrop marked by the slow recovery of the Portuguese economy and the adoption of a more stringent underwriting criteria, coupled with the reduction of the securities portfolio.

Total customer resources amounted to €14,613.1 million in September 2016, which includes €13,898.4 million on-balance sheet resources, of which 90.6 per cent. derived from customer deposits, and €714.8 million of off-balance sheet resources. The portfolio of customer deposits, which stood at €12,593.2 million, focuses primarily on private customers, a segment that has remained stable over the same period, with a variation of -0.5 per cent., thus maintaining its predominance to represent 76 per cent. of total deposits.

In the same period there was an increase in customers' deposits (+0.3 per cent.) reaching a total of €12,593.2 million, despite the historically low interest rates and the rigorous repricing policy of deposits that the Issuer continued to adopt, with particular impact in the corporate and institutional areas more sensitive to price changes.

As at 30 September 2016, the use of ECB resources stood at €2,618.6 million, compared to €2,981.9 million in the same period of the previous year and €2,277.3 million at the end of 2015. The increased refinancing from the ECB in the current year was due to the use of the new series of Targeted Longer-Term Refinancing Operations (TLTRO II) to substitute and strengthen the funds obtained in the first Targeted Longer-Term Refinancing Operations (TLTRO), as well as the increase of resources obtained in the weekly operations. Indeed, up to the end of the 3rd quarter of 2016, CEMG changed the profile of its liquidity operations conducted at the ECB, through early repayment of part of the amounts financed through TLTRO and by taking advantage of the more favourable conditions of rates and terms of TLTRO II.

Consistent with a policy of dynamic management of the bond portfolio, the portfolio of eligible assets to back Eurosystem Monetary Policy operations and for operations in the new Secured Interbank Market showed an increase of €153.5 million as at 30 September 2016 in relation to the 3rd quarter of the previous year, to stand at €3.8 bn. One of the factors that most contributed to this increase was the reinforcement of the public debt portfolio in the current year of 2016, whose effect was mitigated by the sale of €301.2 million of the Pelican SME no.2 Class A bonds, a credit securitisation transaction retained at the Issuer's portfolio on the issue date.

In this way, the pool of available assets, net of haircut, increased from €707 million, at the end of September 2015, to €1,223.4 million at the end of the 3rd quarter of 2016.

Total credit to customers reached €15,385.8 million, representing a decrease of 3.5 per cent. relative to September 2015. This evolution was mainly due to a reduction in Mortgage Loans (Housing and Construction) of 5.8 per cent., which now represents 50.1 per cent. of the total credit portfolio (as at 30 September 2015 it was 51.2 per cent.), as a result of the still tenuous economic recovery, the strict repricing policy and the demanding risk management policy in the credit underwriting criteria.

The evolution of customers' resources and loans granted led to a positive commercial gap of €66.5 million as at 30 September 2016, giving rise to a loan-to-deposit ratio of 99.5 per cent., considering the entire amount of customers' resources on the balance sheet, and of 114.7 per cent. considering only customers' deposits, complying with the maximum indicative level of 120 per cent.

The total Montepio Group total staff reached 4,182 employees as at 30 September 2016 and 331 branches (domestic activity).

The Issuer's total equity was of €1,545.4 million. The Common Equity Tier 1 ratio stood at 10.4 per cent., above the minimum regulatory requirement, pursuant to the phasing-in criteria of the Basel III CRD IV / CRR (Directive 2013/36/EU, Regulation EU 575/2013 and Notice 6/2013 of Banco de Portugal).

## Funding

The following table shows the breakdown of the Issuer's funding sources as of 30 September 2016 and 30 September 2015:

	Sep-16		Sep-15	
	€ million	%	€ million	%
Total Deposits	12,593.3	90.6%	12,553.7	88.0%
Securities Placed With Customers <sup>(1)</sup>	1,305.1	9.4%	1,715.3	12.0%
<b>Total Customers' Resources</b>	<b>13,898.4</b>	<b>100.0%</b>	<b>14,268.0</b>	<b>100.0%</b>

<sup>(1)</sup> unaudited and retrieved from the 2015 management report

Total deposits represent the main funding source, having increased their weight to 90.6 per cent. of the funding structure in September 2016, against 88.0 per cent. in September 2015. The total deposits, which stood at €12,593.3 million, is essentially concentrated on private customers, a segment that remained stable in relation to the same period of the previous year, with a variation of -0.5 per cent., thus maintaining its predominance by accounting for 76 per cent. of total deposits.

As of 30 September 2016, the total deposits showed an increase of 0.3 per cent. compared to the end of September 2015 as a result of the combined circumstances of interest rates at historically low levels, encouraging an intensely competitive environment, and the rigorous deposit repricing policy that the Issuer has continued to endorse, with particular impact on the company and institutional segments that are most sensitive to the price factor.

The following table shows the breakdown of the Issuer's deposits by type of customer as of 30 September 2016 and 30 September 2015:

	Sep-16		Sep-15	
	€ million	%	€ million	%
Individuals	9,551.1	75.8%	9,596.9	76.4%
Companies and institutions	3,042.1	24.2%	2,956.8	23.6%
<b>Total Deposits</b>	<b>12,593.2</b>	<b>100.0%</b>	<b>12,553.7</b>	<b>100.0%</b>

Deposits from individuals were the most important component of the structure of total deposits.

The Issuer regards deposits by individual customers as an attractive form of funding since such deposits tend to be more stable and granular than those of institutional and interbank funds. According to the Credit Institutions General Regime, deposits of up to €100,000 are fully covered by the Bank of Portugal through the “deposit guarantee fund”.

The companies and institutions segment recorded an increase in deposits of 2.9 per cent. as a result of the competitive environment and the repricing policy adopted by the Issuer.

### Loans to Customers

The following table shows the breakdown, according to type of customer and purpose, of the loans granted by the Issuer (including past due credit) as of 30 September 2016 and 30 September 2015:

	Sep-16		Sep-15	
	€ million	%	€ million	%
<b>Individuals</b>	8,470.9	55.1%	8,881.4	55.7%
Housing	7,228.8	47.0%	7,575.8	47.5%
Other Purposes	1,242.1	8.1%	1,305.6	8.2%
<b>Companies</b>	6,914.9	44.9%	7,065.5	44.3%
Construction	471.8	3.1%	594.7	3.7%
Other Purposes	6,443.1	41.8%	6,470.8	40.6%



<b>Total Credit (Gross)</b>	<b>15,385.8</b>	<b>100.0%</b>	<b>15,946.9</b>	<b>100.0%</b>
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Gross Credit to Customers reached €15,385.8 million, representing a year-on-year decrease of 3.5 per cent. The annual performance of the loan portfolio especially reflects the contraction observed in Mortgage Loans (Housing and Construction) of -5.8 per cent. and the reduction in the construction segment (-20.7 per cent.), combined with the stability of the credit granted to companies (excluding construction) which only fell by €27.7 million (-0.4 per cent.) in September 2016. Hence, as of 30 September 2016, loans to companies (excluding construction) increased in terms of their weight in the total loan portfolio to 41.8 per cent. (+1.2 per cent. compared to September 2015), while housing loans maintained their representativeness with 47.0 per cent. (compared to 47.5 per cent. in 2015) and loans to construction continued to fall in terms of weight in the total portfolio, having reached 3.1 per cent. at the end of September 2016 compared to 3.7 per cent. at the end of the previous year.

The decrease in the credit granted to the Individuals segment was mainly due to the evolution of the mortgage loan portfolio, driven by a high level of loan prepayments and repayments as a consequence of the low interest rates environment as well as the revised underwriting policies.

Credit to individuals other than for housing purposes also fell (-4.9 per cent.), due to the maintenance of the indebtedness levels among families.

Loans to construction companies keep losing importance in the Issuer's loan portfolio, and as of 30 September 2016 amounted to €471.8 million or 3.1 per cent. of the total credits granted to customers, against 3.7 per cent. in 2015.

The current economic climate has continued to affect financial activity risks, with the credit-at-risk-ratio increasing by 0.9 per cent. to 15.4 per cent., compared to 14.5 per cent. at the end of September 2015.

### **Banking Regulatory Framework**

As a founding member of the Economic and Monetary Union (“**EMU**”) and the Euro Area, Portugal's financial and banking regulatory framework is in line with the EMU's legislation. Throughout 2015, several measures were taken with impact on the banking system, contributing to a better supervision of banking system and to further harmonization of the European legal framework. In 2015, the following initiatives should be highlighted:

- Notice of Banco de Portugal (“*Aviso*”) No 1/2015 of 7 September, was recently revoked by the Notice of Banco de Portugal (“*Aviso*”) No 6/2016, of 31 May 2016, which regulated the implementation of the capital conservation buffer established in Article 138-D of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, which is aimed at making financial institutions more resilient, by increasing their capacity to absorb unexpected losses, thus contributing to the maintenance of financial stability.

According to the Notice of Banco de Portugal (“*Aviso*”) No 6/2016, of 31 May 2016, the transitional regime established by article 23, nos. 1 to 4, of Decree-Law no. 157/2014 of 24 October, is therefore applicable, for capital conservation and countercyclical buffers, from 1 January 2016 to 31 December 2018:

Phasing-in details for Capital conservation buffer are: 2016, 0.625%; 2017, 1.25%; and 2018, 1.875%;

Phasing-in details for countercyclical buffer are: 2016, maximum 0.625%; 2017, maximum 1.25%; and 2018, maximum 1.875%;

- Bank of Portugal – Notice of Banco de Portugal (“*Aviso*”) No 3/2015, of 10 November which defines the procedures for the submission, maintenance and review of recovery plans, as well as other additional rules necessary for the implementation of Article 116-D of the Legal Framework of



Credit Institutions and Financial Companies (Legal Framework), approved by Decree-Law No 298/92, of 31 December, defines the procedures for determining simplified obligations in the preparation and reporting of the recovery plans and exercises the option to waive from reporting the institutions covered by Article 116-E of the Legal Framework. Were also integrated into the legal framework the following EBA guidelines: (i) "Guidelines on the range of scenarios to be used in recovery plans" and (ii) "Guidelines on the minimum list of qualitative and quantitative recovery plan indicators";

- Bank of Portugal – Notice of Banco de Portugal (“*Aviso*”) No 5/2015 of 7 December 2015, which requires that all entities subject to Bank of Portugal's supervision shall prepare their financial statements on an individual and consolidated basis, where applicable, in conformity with the international accounting standards, and establishes transitional provisions to be in force up to 31 December 2016 for those situations that are not subject to the procedure laid down in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- Bank of Portugal – Notice of Banco de Portugal (“*Aviso*”) No 4/2015 of 14 December, which establishes, according to the current legal framework set out in Articles 138-Q and 138-R of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, the items to be disclosed by Bank of Portugal regarding the identification of other systemically important institutions (O-SII), the capital buffer applicable to each of these institutions and the reporting frequency of that disclosure. On 29 December 2015 a press release was published releasing the names of the banking groups identified as O-SIIs in 2015 and the respective capital buffers, as a percentage of the total risk exposure amount;
- Bank of Portugal – Press release dated 29 December 2015 informing on the decision of Bank of Portugal to set the countercyclical buffer rate at 0 per cent. of the total risk exposure amount, with effect from 1 January 2016 and to prevail in the first quarter of the year. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of Bank of Portugal or the European Central Bank (Single Supervisory Mechanism), as applicable;
- ECB – approval on 22 January 2015 of an expanded asset purchase program to include a secondary market public sector asset purchase program (PSPP);
- ECB - Publication of Regulation (EU) 2015/534 of the European Central Bank of 17 March 2015 (ECB/2015/13), which lays down requirements concerning reporting of supervisory financial information to be submitted to national competent authorities (NCAs) by significant supervised groups and less significant supervised groups;
- ECB – On 3 December 2015, the Governing Council of the ECB decided to decrease the interest rate on the deposit facility by 10 basis points to -0.30 per cent., with effect from 9 December 2015, keeping the interest rate on the main refinancing operations and the interest rate on the marginal lending facility unchanged at 0.05 per cent. and 0.30 per cent. respectively. The Governing Council of the ECB also decided to adopt further non-standard measures, namely:
  - To continue conducting the Eurosystem's main and three-month longer-term refinancing operations as fixed rate tender procedures full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2017;
  - To extend the asset purchase programme (APP) until the end of March 2017, or beyond, if necessary;
  - To reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary;
  - To include, in the public sector purchase programme, euro-denominated marketable debt instruments issued by regional and local governments located in the euro area in the list of

assets that are eligible for regular purchases by the respective national central banks.

- Portuguese Government - Law No 23-A/2015, of 26 March, which transposes into Portuguese Law (i) Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes and (ii) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for recovery and resolution of credit institutions and investment firms;
- Portuguese Government - Decree-Law No 100/2015 of 2 June, which approves the legal system of credit financial companies and amends the legal systems of investment companies, financial leasing companies, factoring companies and mutual guarantee companies;
- Portuguese Government - Decree-Law No 190/2015 of 10 September, which approves the legal framework of savings banks. It breaks down savings banks into two types – affiliated savings banks (*caixas económicas anexas*) and full-service savings banks (*caixas económicas bancárias*) depending on the volume of assets.

## Competition

The Issuer ranks 6<sup>th</sup> in total net assets in the Portuguese banking system, as at 30 June 2016 (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Despite the competition in the market, Montepio has been able to sustain its position in the market and to preserve its market share in banking activity. Montepio's overall market share (deposits and credit) was 6.4 per cent. as at September 2016 (source: Bank of Portugal Financial and Monetary Statistics (Resident Activity)).

Furthermore, the Issuer has a market share of 7.4 per cent. in housing credit and 6.7 per cent. in the loans to SMEs and corporations (source: Bank of Portugal, Financial and Monetary Statistics (Resident Activity)). Montepio's market share in total deposits stood at 6.1 per cent. as at September 2016, reaching 6.5 per cent. in the household deposits segment, including emigrants (source: Bank of Portugal, Financial and Monetary Statistics (Resident Activity)).

The Issuer is consolidating its market share in other business areas, such as leasing (2.7 per cent.), factoring (1.3 per cent.) in September 2016, and mutual funds (5.1 per cent.) and pension funds (7.8 per cent.) all as at September 2016.

The Issuer considers that its primary competitive advantage arises from the quality of service rendered to customers and its relationship with its parent company. The mutual nature, coupled with private pension schemes and other benefits which MGAM provides to its members, and the reputation as a stable financial institution are considered by the Issuer the key reasons for its customers to continue to find this institution an attractive provider of banking services.

## Credit Risk

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and on rating models for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies, reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage, individual loans and credit cards.

In the corporate segment internal rating models are used to medium and large companies, distinguishing construction sector and third sector from the other activity sectors, while for individual entrepreneurs and micro businesses segments is applied the scoring model business.

The Group's credit risk exposure for the years ended 30 June 2016 and 31 December 2014 can be analysed as follows:

	As at 30 Jun 2016 € million	As at 31 Dec 2015 € million
Deposits with other credit institutions	239.8	238.0
Deposits with banks	166.0	172.0
Loans and advances to customers	14,392.3	14,662.3
Financial assets held for trading	27.3	43.7
Available for sale financial assets	1,752.1	2,509.7
Hedging derivatives	0	0.1
Held to maturity investments	1,268.0	161.5
Investments in associated companies and others	3.8	3.9
Other assets	364.9	314.4
Guarantees granted	440.7	444.7
Documentary credits	54.8	55.4
Irrevocable commitments	509.9	629.0
Credit default swaps (notional amount)	75.0	85.0
<b>Total Credit Risk Exposure</b>	<b>19,294.6</b>	<b>19,319.7</b>

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from Portuguese Republic.

### **Lending Policies and Procedures**

Underwriting rules are reviewed on a regular basis, covering the analysis of applications, pricing policy (on a risk-adjusted basis), decision-making, follow-up and credit recovery.

The Issuer uses application and behavioral scorings in the analysis of its counterparties and loans, with both scoring classifications contributing to the loan decision. The “Application Scoring System” evaluates the risk of the counterparty for a given type of loan, therefore supporting the decision of retail loan applications (mortgage, consumption and credit cards). The scorecards were developed in line with the Issuer's portfolio and in accordance with statistical methods, which pinpoint the most predictive variables of counterparty defaults, such as socio-professional, demographic and economic indicators.

Moreover, the system automatically checks whether negative events have been registered in internal and/or external databases and it also enforces credit rules (“Loan-to-Value” and “Payment-to-Income” ratios). The cut-off points of this system have been set in accordance with the Issuer's “Credit Policy Guidelines” on acceptable levels of risk, based on which the system decides whether credit applications should be accepted or rejected.

The “Behavioral Scoring System” evaluates the risk of each customer for different types of loans, calculating a score based on the relationship data with the Issuer.

The Issuer is in the process of preparing the application for the IRB approach, which will imply further improvements to the internal risk models and governance.

The underwriting credit policy is the responsibility of 4 levels of management, involving the Branch (1<sup>st</sup> decision-making stage), the Regional Department and Credit Risk Analysis (2<sup>nd</sup> stage), the Commercial Division and Risk Analysis Division (3<sup>rd</sup> stage) and the Board (4<sup>th</sup> stage), depending on the nature of the loan, the requested amount and the customer global exposure.

Credit limits are applied to each customer and differ according to the product's characteristics. A large majority of housing and construction loans are secured by a first mortgage on the relevant land and buildings or, in some circumstances, other land or buildings. The Issuer, typically, does not accept second or lower ranking mortgages, other than in exceptional circumstances or where it is the holder of all prior ranking mortgages.

Special limitations and terms apply to loans being granted to startup companies and other borrowers who are classified with a high credit risk. If a proposed construction loan exceeds 60 per cent. of the value of the property or a proposed housing loan exceeds 80 per cent. of the value of the property, an authorisation at a more senior credit decision level will be sought and an increase in the collaterals or guarantees may be required. In addition, it is a requirement before any housing or construction loan is approved that a valuation of the proposed security is received from an independent expert approved by the Issuer.

### Non performing Loans

As at 30 September 2016, 9.7 per cent. of the Issuer's loan portfolio (including past due interest) was in default, representing approximately €1,498.5 million, compared to €1,358.3 million (or 8.5 per cent. of the Issuer's portfolio) as at 31 December 2015.

The following table gives certain details of non performing loans for the periods ended on 30 September 2016 and 31 December 2015:

	As at 30 Sep 2016 € million	As at 31 Dec 2015 € million
Domestic loan Corporate		
Construction / Production	302.9	265.0
Investment	526.3	468.9
Working Capital	327.6	298.5
Other loans	74.0	70.8
Retail		
Mortgage loans	112.0	96.9
Consumer credit	68.6	65.0
Other loans	76.1	77.1
Foreign loan		
Corporate	9.6	13.6
Retail	1.4	2.5
<b>Total</b>	<b>1,498.5</b>	<b>1,358.3</b>
Total as percentage of loan portfolio	9.7%	8.5%

The following table sets forth the default period of time for non performing loans in the periods ended 30 September 2016 and 31 December 2015:

	As at 30 Sep 2016 € million	As at 31 Dec 2015 € million
Up to 3 months	98.5	125.4
Over 3 months	1,400.0	1,232.9
	<b>1,498.5</b>	<b>1,358.3</b>

Loans are monitored through computer checks on whether payments are made on time, regular reviews by

management and regular reporting by corporate borrowers. The Issuer also uses certain early warning system (for example, by monitoring whether corporate borrowers make social security payments on time).

Loans in default are dealt with at different internal management levels. The branches, with the help of the Contact Center, are responsible for coordinating the initial stage (up to two months in arrears) of the credit recovery process, and follow the PARI and PERSI procedures as explained in the Risk Factors chapter. A letter is sent to the borrower notifying him of the delinquent status of the loan and outbound calls from the bank and the Contact Center are made to try to contact the borrower and the guarantors.

After two months in arrears the process is monitored by the Credit Recovery Division that begins the pre-litigation stage; several contacts and negotiations are made through the services of extrajudicial specialized companies whose services are paid on a success fee basis and by internal recovery teams specialized in individual's recovery. If a solution is not reached and the loan achieves six months in arrears then legal proceedings will, at that point, be instigated. The Issuer continues to accrue interest on unsecured loans for three months following a default. Interest in respect of mortgage secured loans is accrued up until the value of the collateral is surpassed by the amount of principal and interest in arrears.

A provision for general credit risk of 1 per cent. (0.5 per cent. for housing loans secured by property, provided that the guarantee is used by the borrower as his official or actual residence, and 1.5 per cent., for consumer credit) is made for every loan from the date it is granted. Further provisions are made once the loan is in default for three months depending on the time for which it has been in arrears, although the percentage of provisioning in respect of unsecured loans increases at a greater rate than the percentage for secured loans.

The Issuer's treatment of provisions is in accordance with the requirements of the Bank of Portugal. If a non-performing loan is rescheduled, provisions are only reversed when payment is received or when additional collateral or an additional guarantee is provided in connection with the rescheduling of the loan.

The following table shows total non-performing loans and total impairment charges for the periods ended 30 September 2016 and 31 December 2015:

	As at 30 Sep 2016 € million	As at 31 Dec 2015 € million
Total non-performing loans	1,498.5	1,358.3
(as percentage of total credit to customers)	9.7%	8.5%
Impairment for Credit Risk	1,155.0	1,281.7
(as percentage of total non-performing loans)	77.1%	94.4%

The Issuer reduced the amount of impairments for credit risk during 2016, which contributed to the reduction of the ratios of coverage of credit and interest overdue by impairments to 77.1 per cent. and of credit and interest overdue by more than 90 days to 82.5 per cent.. The Simple Coverage of Credit-at-Risk by impairment stood at 48.8 per cent., whereas the coverage ratio considering total credit impairments and the associated real estate collateral reached 118.9 per cent..

### **Financial Risk Management**

The most important financial risks to which the Issuer is potentially exposed are liquidity risk, foreign exchange risk and interest rate risk; the most important in practice being liquidity risk.

In common with many similar credit institutions which finance housing loans, the Issuer's loan assets are relatively illiquid whilst its funding is based on retail deposits, most of which are either legally available on demand or are of a short term nature (although in practice such deposits usually remain with the Issuer for extended periods). Liquidity is monitored on a daily basis, based on actual and forecast money inflows and outflows, and measures are immediately taken to overcome any shortfall.

With the aim of rendering a more liquid profile to its assets, the Issuer has been securitising part of its

credit book, namely housing credit, under its “Pelican Mortgages Programme”, out of which 6 transactions have been executed, so far.

In June 2010 the Issuer securitised for the first time part of its small and medium size companies credit book, under “Pelican SME Loans no.1”, for a total consideration amount of €1.2 billion. This transaction was fully paid by the Issuer on 15<sup>th</sup> April 2014.

In March 2012, the Issuer closed its 6<sup>th</sup> Residential Mortgage securitization transaction, for a total consideration amount of €1.0 billion.

In May 2014 the Issuer securitised for the first time a pool of receivables consisting of consumer and auto loans granted to private individuals, in a total outstanding amount of €294 million. The portfolio was originated by the Issuer and Montepio Crédito – Instituição Financeira de Crédito, S.A. (“Montepio Crédito”) (together the “Sellers” or the “Originators”).

In March 2015 the Issuer securitised for the second time part of its small and medium size companies credit book, under "Pelican SME Loans no.2", for a total consideration amount of €1.09 billion.

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which exposure limits are also defined. This control is reinforced with stress tests executed on a monthly basis, in order to characterize the risk profile of the Issuer and ensure that the Group fulfils its obligations in a liquidity crisis scenario.

In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated under the rules required by the Bank of Portugal (Instruction No. 13/2009 of 15 September). Historically, the Issuer has shown dynamic positive liquidity gaps, with positive accumulated mismatches (gaps in the phasing between resource inflows and outflows) for the different timeframes up to 12 months.

Also, it is calculated on a regular basis the level of compliance with the new prudential liquidity ratios, namely: (i) the Liquidity Coverage Ratio (LCR) introduced with the entry into force of CRD IV in 2014. As at 30 September 2016, the LCR stood at 109.0 per cent. (111.4 per cent. as at 31 December 2015), above the minimum 70 per cent. required level.

Liquidity risk management also takes into account the Issuer's counterbalancing capacity. The value of eligible assets for ECB funding was €3.8 billion as at 30 September 2016 (€4.0 billion as at 31 December 2015). The total collateral pool available for ECB refinancing was of €1.2 billion as at 30 September 2016 (€1.7 billion as at 31 December 2015).

Concerning exchange rate risk, as a rule, CEMG invests the resources attracted in different currencies through assets in the respective money market and for maturity periods that are not higher than those of the resources. In CEMG's international activity, namely in Angola and Mozambique, the management of exchange rate risk is carried out by the corresponding institutions, although the Group's consolidated foreign exchange gaps are monitored and followed-up closely.

As far as financial assets are concerned, a report is produced on the related credit and market risks on the Issuer's and the Group's securities portfolios. A daily risk assessment is drawn-up for the Issuer's own portfolio, which includes an analysis on the sensitivity of the portfolio's net asset value, as well as the disclosure of other risk measures, such as “Value-at-Risk” (“VaR”), checks on “Stop-Loss limits” and a breakdown of the portfolio's assets by credit ratings and duration.

The Issuer calculates its own portfolio “VaR”, given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, CDS risk, the options risk and specific credit risk.

The following table presents the main indicators of these measures with respect to the trading portfolio:

(EUR thousand)	jun 2016	Average	Minimum	Maximum
Market VaR	554	688	528	1,284
Interest rate risk	483	496	520	496
Exchange risk	77	106	163	95
Price risk	288	372	226	964
Spread risk (CDS)	-	-	-	-
Diversification effect	(293)	(286)	(381)	(270)
Credit VaR	159	139	124	146
<b>VaR Total</b>	<b>714</b>	<b>827</b>	<b>652</b>	<b>1,430</b>

The Issuers's use of derivatives is mainly aimed at hedging interest rate risk derived from its funding activities on the domestic and international debt capital markets.

The interest rate risk caused by operations of the banking portfolio is assessed through risk-sensitivity analysis, on an individual and consolidated basis for the entities included in the Group's consolidated balance sheet. Interest rate risk is appraised in accordance with the impacts on net interest income, net worth and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent behavioural assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing brackets:

	(EUR thousands)				
	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
<b>30 June 2016</b>					
Assets	8,785,016	3,697,322	250,739	1,831,198	2,052,922
Off balance sheet	8,022,062	74,308	129,694	96,976	0
Total	16,807,078	3,771,631	380,432	1,928,174	2,052,922
Liabilities	5,122,877	1,633,489	2,365,031	8,930,455	302,365
Off balance sheet	8,071,022	102,861	31,294	117,864	0
Total	13,193,899	1,736,349	2,396,325	9,048,318	302,365
GAP (Assets - Liabilities)	3,613,179	2,035,282	-2,015,893	-7,120,144	1,750,557
<b>31 December 2015</b>					
Assets	9,516,898	3,878,544	391,417	1,684,343	1,499,154
Off balance sheet	8,217,800	18,502	67,556	141,297	0

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Total	17,734,698	3,897,046	458,973	1,825,640	1,499,154
Liabilities	5,178,793	2,232,291	2,227,600	8,334,392	307,270
Off balance sheet	8,227,811	98,735	20,000	98,429	0
Total	13,406,604	2,331,026	2,247,600	8,432,821	307,270
GAP (Assets - Liabilities)	4,328,094	1,566,020	-1,788,627	-6,607,181	1,191,884

The gaps of interest rate during the six-month period ended at 30 June 2016 and during 2015 are presented as follows:

	2016				2015			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest Rate Gap	-1,737.0	-1,737.0	-1,737.0	-1,737.0	-1,309.8	-1,836.5	-1,309.8	-2,486.0

Sensitivity to the balance sheet interest rate risk, by currency, is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve. As at 30 June 2016, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause a decrease in the income statement in Euro 2,059 thousand (31 December 2015: increase of Euro 24,003 thousand).

## Capital

Since December 2013, the Issuer's capital structure consists of institutional capital, an endowment made by MGAM that holds the institutional capital of the Issuer, and the Participation Fund, represented by securities ("*Unidades de Participação*") which are listed in Euronext Lisbon. Prior to this date, the Issuer had a special status, with no share capital and with the equity capital under the form of institutional capital held exclusively by MGAM. However, in order to accomplish its strategy of strengthening the institution's Basic Own Funds, the capital of the Issuer was opened to public investment. On 25 November 2013, the Issuer launched an initial public offer of 200 million Securities (*Unidades de Participação*), at a nominal value of €1, representing its Participation Fund (*Fundo de Participação*). The Securities offering was successful, with demand exceeding offer by 10.2 per cent., and subscription orders reaching in excess of €220 million in the 15 business day subscription period. On 17 December 2013, the Securities were listed on the Euronext Lisbon following the Regulated Market Special Session. Following this listing, Montepio is considered an entity with capital open to public investment (*Entidade com Capital Aberto ao Investimento do Público*).

Following the approval of the new savings banks act by Decree-Law no. 190/2015, of 10 September 2015 ("**Savings Banks Act**"), which entered into force on 10 October 2015, savings banks (*caixas económicas*) with assets equal or greater than € 50,000,000.00 (fifty million euro) were classified as full service savings banks (*caixas económicas bancárias*) (as opposed to affiliated savings banks (*caixas económicas anexas*)) and must adopt the form of public limited liability companies (*sociedades anónimas*) with a public ownership structure.

In accordance with the above asset criteria, the Issuer is now characterized as a full service savings bank



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

The Issuer is not yet organized in the form of a public limited liability company (*sociedade anónima*) but following the recommendation of Bank of Portugal, the transformation of the Issuer into a Public Limited Company (*sociedade anónima*) was approved in an Extraordinary General Meeting of the Issuer, held on 4 April 2017. The effectiveness of the resolutions, regarding the transformation of the Issuer into a Public Limited Company (*sociedade anónima*), still requires their ratification by the General Meeting of Montepio Geral Associação Mutualista, to be held no later than 9 May 2017, as well as their registration.

In relation to full service savings banks, the Savings Banks Act further requires that the majority of the share capital or voting rights thereof are held by the respective owner institutions. The owner institutions may only be mutual associations (as it is the case, in relation to the Issuer, of Montepio Geral Associação Mutualista), charities (*misericórdias*) or beneficence institutions.

In view of the above, MGAM, in its capacity as the owner institution, shall continue to be the majority holder of the Issuer.

MGAM has been able to increase the institutional capital of the Issuer, as a means to providing the latter the capital levels necessary to ensure its medium and long-term financial stability.

On 30 September 2013, the institutional capital of the Issuer was increased by a cash injection made by MGAM, in the amount of €100 million. The Issuer's institutional capital was further increased by €105 million, on 11 November 2013, through an endowment by MGAM.

In the end of June 2015 the Issuer concluded a further issue of €200 million Securities (*Unidades de Participação*), at a nominal value of €1, representing its Participation Fund (*Fundo de Participação*) fully subscribed and paid by MGAM.

On 18 March 2016, the Issuer's institutional capital was increased from €1,500 million to €1,770 million, through an investment made by MGAM, in cash, in a total amount of €270 million.

The capital of the Issuer (comprised of the institutional capital and Participation Fund) reached a total of €2,170 million which includes €400 million Securities of the Participation Fund, in addition to the institutional capital of €1,770 million.

In view of the new capital structure, return on capital shall be distributed in accordance with the relevant capital's proportion of total capital, in circumstances where there is sufficient net profit, after provision has been made for mandatory reserves, and after the approval of the Issuer's General Meeting acting on a proposal from the Executive Board of Directors.

The following table sets out the capital position of the Issuer as at 30 September 2016, its risk-weighted assets and capital ratios, calculated in accordance with the requirements of the Bank of Portugal and in compliance with Basel III prudential indicators:

	As at 30 Sep 2016 € million
<b>1. Total Capital</b>	<b>1,458.0</b>
(+) instruments eligible for CET1	2,151.0
(+) reserves and net income	-652.3
(-) regulatory deductions	116.9
<b>1.1 (=) Common Equity Tier 1 Capital</b>	<b>1,381.9</b>
(+) other equity instruments	0.0

	As at 30 Sep 2016 € million
(-) Tier 1 deductions	0.0
<b>1.2 (=) Tier 1 Capital</b>	<b>1,381.9</b>
(+) Tier 2 capital	87.0
(-) other deductions	10.9
<b>2 Minimum Own Fund Requirements</b>	<b>1,059.5</b>
<b>3 Risk weighted assets and equivalents</b>	<b>13,243.4</b>
<b>4. Ratios - CRD IV <i>phasing-in</i></b>	
Common Equity Tier 1 ratio (1.1/3)	10.43%
Tier 1 ratio (1.2/3)	10.43%
Total capital ratio (1/3)	11.01%
<b>4. Ratios - <i>Full Implementation</i><sup>(1)</sup></b>	
Common Equity Tier 1 ratio	8.19%
Tier 1 ratio	8.22%
Total capital ratio	8.89%

<sup>(1)</sup> unaudited and retrieved from the 2016Q3 management report

The table below sets out the capital position of the Issuer as at 31 December 2015, its own funds' requirements and capital ratios, calculated in accordance with the then in place requirements of the Bank of Portugal and in compliance with Basel III prudential indicators:

	As at 31 Dec 2015 € million
<b>1. Total Capital</b>	<b>1,360.2</b>
(+) instruments eligible for CET1	1,890.0
(+) reserves and net income	-561.2
(-) regulatory deductions	97.9
<b>1.1 (=) Common Equity Tier 1 Capital</b>	<b>1,230.9</b>
(+) other equity instruments	0.0
(-) Tier 1 deductions	0.0
<b>1.2 (=) Tier 1 Capital</b>	<b>1,230.9</b>
(+) Tier 2 capital	137.5
(-) other deductions	8.2
<b>2 Minimum Own Fund Requirements</b>	<b>1,117.0</b>
<b>3 Risk weighted assets and equivalents</b>	<b>13,962.4</b>
<b>4. Ratios - CRD IV <i>phasing-in</i></b>	
Common Equity Tier 1 ratio (1.1/3)	8.82%
Tier 1 ratio (1.2/3)	8.82%
Total capital ratio (1/3)	9.74%
<b>4. Ratios - <i>Full Implementation</i><sup>(1)</sup></b>	
Common Equity Tier 1 ratio	6.73%
Tier 1 ratio	6.75%

Total capital ratio

7.74%

<sup>(1)</sup> unaudited and retrieved from the 2016Q3 management report

Within the framework of the Issuer's Strategic Guidelines for the period 2015-2017, adopted by the General Assembly of December 29, 2014, and as stated in the Funding and Capital Plan 2015-2017 submitted to the Bank of Portugal, the Issuer has defined a strengthening plan of the capital ratios. This plan aims to achieve a capital buffer that allow capital ratios to be set in excess of the capital requirements regulation (CRR) and directive (CRD IV) by 2018.

The measures envisaged were the following:

- amend the terms and conditions of some of the cash bonds issued in 2008, designated as “*Obrigações de Caixa Subordinadas Montepio Rendimento Top 1.ª Série 2008/2018 (CÓD. ISIN PTCMKLXE0004)*” and “*Obrigações de Caixa Subordinadas Montepio Rendimento Top 2.ª Série 2008/2018 (CÓD. ISIN PTCMKOXE0001)*” in the total outstanding principal amount of € 300,000,000.00 (three hundred million euro) (“**Cash Bonds**”) in order for the same to be considered eligible to Tier 2 Capital in accordance with Regulation (EU) No 575/2013, namely:
  - a) not to allow CEMG to early repay the issue;
  - b) to include an option to postpone the payments of interest;
  - c) and, if so, any interests that are not paid shall be capitalized at the interest rate of the next interest payment date.
- The required amendments have been duly and validly approved by more than 2/3 of the attendees to the meeting of the holders of the Cash Bonds that took place on 13 May 2015, resulting in the Cash Bonds becoming an eligible Tier 2 instrument for the purposes of the CRD IV and the CRR.
- increase Common Equity Tier 1 capital by € 200 million through the issuance of additional Securities (Unidades de Participação) of the Participation Fund (*Fundo de Participação*) through a private offering to be fully subscribed by MGAM, the parent company. This new issue was subject to the prior approval of the waiver, by the then participation unit holders, to their pre-emption rights in respect of the issuance of those additional € 200 million Securities. This proposal was submitted to and approved by the participation unit holders in an Assembly of the Unit holders of Caixa Económica Montepio Geral's Participation Fund was held on June 5, 2015. Following this approval, CEMG issued, on 26 June 2015, the 200 million participation units, through a private offer fully subscribed and paid for by Montepio Geral – Associação Mutualista;
- implementation of the deleveraging plan in course with respect to the non-strategic assets, which will result in a reduction of the risk-weighted assets and consequently in a positive impact on capital ratios. This deleveraging program began in December 2014 and shall be concluded till the end 2017. It comprises the sale of non-performing loans (NPLs) portfolios and the sale of real estate (the non-current assets held for sale) in a total outstanding amount of circa 1,365 million euros. The implementation of the program will be conditional to the current and future market conditions, to all the required negotiation process, and to the features and the valuation of the portfolios to be sold;
- execution of the Plan to reduce the exposure to Real Estate risk as submitted to the Bank of Portugal, which in addition to the previous real estate wholesale sale plan, includes a set of actions to reduce the real estate portfolio, namely: Non-current assets available for sale and investment properties, in a total outstanding amount of circa € 108 million per year, with a favorable impact on reducing the risk-weighted assets and the capital allocation.

Other risk factors associated with the implementation of the aforementioned plans relate to contextual circumstances and exogenous factors, namely the evolution of Portuguese economical and political

conditions. Important risk and uncertainty factors are the sustainability of the public finances and of the government debt, related with the investor's perception and demand for any additional risk premium, and the regulatory changes within the framework of Economic and Monetary Union. If the Issuer is unable to raise the funds or otherwise adopt the measures required to fully comply with the capitalisations requirement imposed by the CRD IV and the CRR, the Issuer may be subject to regulatory measures determined by the Banks of Portugal, including, *inter alia*, corrective measures and resolution measures. For a description of the purpose and scope of these measures, please refer to the section headed “*Legislation on Bank Recovery and Resolution*”.

In accordance with the requirements and main goals of the Funding and Capital Plan, as at 30 December 2015, the Issuer's General Meeting approved the Strategic Plan for the three-year period 2016-2018. This document seeks to consolidate the Issuer's traditional business, focused on the well-being of families, the financial needs of Portuguese small and medium-sized enterprises (SMEs) and support to the Social Economy, through a competitive, efficient, simple and trustworthy service. The Issuer pursued its distinctive management model recognised by its customers, based on the tradition, solidarity and solidity on which it was constructed and that has always defined the Issuer over its more than 170 years of history.

The Strategic Plan referred to above embodies the following Strategic Guidelines, where each guideline has a specific implementation and action plan:

- (a) Improvement of Core Net Operating Income;
- (b) Redimensioning of the operating platform and improved efficiency;
- (c) Strengthening of Risk Management;
- (d) Improve efficiency in the management of Liquidity;
- (e) Human Capital and Talent Management;
- (f) Adjustment of Capital to business needs;
- (g) Enhancement of the robustness of the Institutional Model

#### **Participation Fund (*Fundo de Participação*)**

As referred to in the section above, on 25 November 2013, the Issuer launched an initial public offer of 200 million Securities (*Unidades de Participação*), at a face value of €1, in the Participation Fund (*Fundo de Participação*) of the Issuer. The Securities offering was successful, with demand exceeding offer by 10.2 per cent., and subscription orders reaching in excess of €220 million in the 15 business day subscription period. On 17 December 2013, the Securities were listed on the Euronext Lisbon following the Regulated Market Special Session. Following this listing, the Issuer is considered a company whose capital is open to investment by the public (*Entidade Com Capital Aberto Ao Investimento do Público*).

In addition and as described above, the Issuer issued, on 26 June 2015, the 200 million participation units, through a private offer fully subscribed and paid for by Montepio Geral – Associação Mutualista.

Hence, a total 400 million Securities (*Unidades de Participação*) have been issued representing the Participation Fund, which are currently outstanding: 200 million Securities were issued by public offer; and the remaining 200 million Securities were issued through a private offer fully subscribed and paid for by Montepio Geral – Associação Mutualista.

As of 30 September 2016, the Issuer held, through its subsidiary Montepio Investimento S.A., 80,918 participation units (*Unidades de Participação*), corresponding to 0.02 per cent. of the Participation Fund.

According to articles 6 (b) and 8 of its by-laws, the Issuer provides for the establishment of a participation fund (“**Participation Fund**”) (*Fundo de Participação*), which, in addition to the institutional capital, the Legal Reserve, the Special Reserve, the Other Reserves and the Undistributed Results, will form the Equity and Own Funds of Montepio.

The main characteristics of the Participation Fund (*Fundo de Participação*) are as follows:

- a) The Participation Fund (*Fundo de Participação*) is permanent;
- b) It is represented by Securities (“**Securities**”) (*Unidades de Participação*), equivalent to equity, with a nominal value and in the form to be determined when their respective issuance is to be approved;
- c) It can only be redeemed upon the winding-up of the Issuer and only upon the redemption of all the other creditors of the Issuer, including those that hold other types of subordinated debt. The holders of the Securities (*Unidades de Participação*) will rank *pari passu* and pro rata with the holder of the Issuer's institutional capital in sharing the liquidation amount of the Issuer's assets;
- d) Any redemption of the Participation Fund (*Fundo de Participação*) can only be made pursuant to the provisions of the Issuer's by-laws and following the prior written consent of the Bank of Portugal;
- e) The holders of the Securities (*Unidades de Participação*) are not entitled to intervene in the governing bodies of the Issuer, but are only entitled to receive an annual revenue if and when there are sufficient results to that effect and upon the approval of the Issuer's General Meeting, based on a proposal by the Executive Board of Directors.

The overall amount of the Participation Fund is not capped, but the Executive Board of Directors of the Issuer is authorised to issue Securities (*Unidades de Participação*) up to an amount equivalent to the current institutional capital amount (currently €1,770,000,000).

The Bank of Portugal has acknowledged the Issuer's Participation Fund as a positive element of its core own funds, according to article 3, (a) of Bank of Portugal's Notice (*Aviso*) no. 6/2010 (as amended), and its eligibility for the computation of core tier 1, according to Bank of Portugal's Notice (*Aviso*) no. 3/2011 (as amended) and common equity as per CRD IV (i.e. the regulation resulting from: (i) Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and (ii) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

As a consequence of the Participation Fund public offer and admission to the regulated market, the Issuer is now legally deemed as an issuer of shares admitted to trade on a regulated market. As such, the Issuer needs to comply with all duties and obligations mandatory to an issuer of shares, including to disclose all relevant information to the market and regulators, namely CMVM and the Bank of Portugal.

## **Technology**

Montepio believes that technology has strategic importance in providing good quality and innovative services to its customers, which is essential to maintain its competitiveness in the Portuguese market.

The Legacy System is hosted in IBM zSeries BC10 model E10 W05 1.968 Mips. The business application was developed in partnership with the company Accenture. The base package now Alnova is developed in COBOL (Enterprise Cobol 4.2), DB2 (DB2 for z/OS V10) and CICS (CICS TS for z/OS V5.1) and run in a z/OS V1.13.

Montepio deployed a private cloud solution based in VMWARE and HYPER-V, following the IaaS model, allowing powerful consolidation and virtualization of the Distributed Systems, with the corresponding benefits from increased operational efficiency, shorter time to production and reduced infrastructure-related efforts and costs.

A sophisticated information network has been implemented, integrating voice and data, and maintained in continuous evolution. It provides high bandwidth connections up to 10 GB, incorporating 4G technology.

The security infrastructure ensures, in a high availability system, the protection of all systems through Geo-cluster Checkpoint firewalls integrating the protection of threats with Radware intrusion detection

mechanisms, geographic balancing and Radware local balancing. All components of the solution are present in its' own infrastructure with multi-user interconnections to assure that all national and international communications and their contents are served in Lisbon or Porto, providing protection against failures in the event of interruptions in local or regional networks, power outages or natural disasters.

In addition, innovative projects have been and are being implemented, with a large impact on the local market, such as:

- Internet Banking (Net24) and Mobile Banking (Netmóvel24) including an app for Windows 8 (Surface and PC), providing customers with a wide range of transactions, including enquiries, deposits, transfer orders and bill payments and on-line brokerage services.
- A contact centre (Phone24) has been established, which provides phone, fax, e-mail and chat capabilities for its customers.
- An internal Self-Service ATM network (Chave24). Montepio was the first bank to provide ATM services in Portugal in 1984. At present their last generation ATM with a Web based Application and cash-Recycling technology, provides a broad range of products and services which are all touch screen only and voice enabled, such as: bill payment, cash and check deposits and passbook automatic page turn.
- A new Branch Automation Solution is being developed using *Accenture Multichannel Platform*, providing the migrating from a Client-Server architecture to a Web Based Application running in Virtual machines. The new solution will allow the integration of information from a diversity of sources like: CRM, Enterprise Analytics, Workflows, Intranet and others.
- A new Enterprise Data Warehouse (EDW) was implemented in 2010 based on a relational model named Detail Data Store (DDS), developed on a SAS technology platform, supported on a Data Computer Appliance (Greenplum). This new EDW supports all needs related with Business Intelligence trends considering financial services. This infrastructure keeps increasing, on a regular basis, in order to cater for the needs arising from the development of new business lines and to meet business subjects areas like risk, profitability, pricing, Regulatory Reporting, Auditing, Marketing.
- The former “CRM” is, currently, being developed to a Marketing Automation level comprising a new Analytic CRM platform interacting with an upgraded Operational CRM application among full integration with a revised 360° Customer Vision (value added with new commercial relevant information) and integration with Product Catalog and other distribution channels for a total Customer relation awareness.
- A credit scoring application is in operation providing a useful tool for assessing risks related to housing loans, consumer credit and credit cards.
- Misys Kondor+ has been implemented in order to improve trade management, support of complex derivatives, options and structured trades support, improve straight through processing. With Misys Kondor+ we could implement a complete front-to-back solution with strong support for risk management and centralized administration and control. We are using version 3.2 SP2 and plan to upgrade in a near future to version 3.4 of Misys Kondor+.
- A “Time Deposit Workflow” is in operation allowing the integrated management of spread authorization in time deposits.
- A “Workflow” system allowing for the integrated management of credit process has been implemented.
- An “Enterprise Document Management System” has been implemented supporting different business process such as: inter-bank circulation of cheque images, members' and costumers' signatures and daily branch movement.

- In terms of compliance – “AML”, an Operational Monitoring System (“Northland”) has been implemented as well as a Filtering System (“Fircosoft”) for "funds transfer" operations and for clients.

### **Employees**

Following the guideline laid out in the 2016-2018 Strategic Plan, to redimension the operating structure, the number of employees went from 4,432, as at 30 September 2015, to 4,182, as at 30 September 2016. Net assets per employee increased from €4.9 million to €5.1 million in the same timeframe.

### **Recent Developments**

On 18 March 2016, the Issuer's institutional capital was increased from €1,500 million to €1,770 million, through an investment made by MGAM (the parent company), in cash, in a total amount of €270 million.

On 31 March 2016, the Issuer's subsidiary Montepio Investimento S.A. sold 31,500,000 Participation Units of the Issuer's Participation Fund. As a result and under the terms of article 20 of the Portuguese Securities Code, Montepio Investimento S.A. is no longer a qualified unitholder.

Since 21 March 2016 and as a consequence of the annual review of PSI20 (the Portugal PSI 20 Index is a capitalization-weighted index of the top stocks listed on the Lisbon Stock Exchange), the Participation Units (*Unidades de Participação*) of the Participation Fund (*Fundo de Participação*) met the criteria in order to be included in this reference index of the Portuguese stock market. As securities that are equivalent to shares and fulfilling the liquidity, the free-float and the speed of capital turnover in the market, the Participation Units have been included in the reference basket of companies listed on the Portuguese stock market.

The Extraordinary General Meeting held on 6 July approved the adherence to the special regime applicable to deferred tax assets, set out in Law No. 61/2014, of 26 August. Such approval is conditional upon the prior conversion of CEMG's legal nature into a Public Limited Company (“*sociedade anónima*”), a process which is currently underway. This regime allows the conversion of specific types of deferred tax assets into tax credits, thus enabling the absorption of losses, regardless of the future profitability of the credit institution.

On 21 July 2016, the Issuer disclosed to the market that all necessary legal and operational procedures for the closure of its Cayman Islands branch were concluded, in line with the Issuer's 2016-2018 Strategic Plan.

On 8 August 2016, the Issuer disclosed to the market that its subsidiary Montepio Investimento, S.A. approved the closure of company Montepio Capital de Risco, S.C.R., S.A., and the general meeting of its subsidiary Montepio Recuperação de Crédito, A.C.E. approved the closure of the company, as included under the Issuer's 2016-2018 Strategic Plan.

On 20 September 2016, Eurico Hélder Reis Sousa Brito sold 125,000 Participation Units of the Issuer's Participation Fund, reducing his unitholding to 7,904,002 participation units. As a result and in accordance with article 20 of the Portuguese Securities Code (Código dos Valores Mobiliários), he is no longer a qualified unitholder.

Montepio Geral Associação Mutualista (“MGAM”, the parent company) informed that, on 27 September, it holds 266,786,766 participation units of the CEMG Participation Fund, representing a qualified holding of 66.7%.

On 13 October 2016, Paulo Jorge Veríssimo Guilherme sold 71,500 Participation Units of the Issuer's Participation Fund, reducing his unitholding to 7,963,845 participation units. As a result and in accordance with article 20 of the Portuguese Securities Code (Código dos Valores Mobiliários), he is no longer a qualified unitholder.

Moreover, it should be noted that pursuant to article 8 of CEMG's Articles of Association, the unitholders in CEMG's Participation Fund have no voting rights. MGAM is, as the holder of CEMG institutional

capital, the sole holder of voting rights.

The implementation of the Strategic Plan of CEMG for the three-year period 2016-2018, approved by the Extraordinary General Meeting held on 30 December 2015, continued on track during the 3rd quarter of 2016.

During the 4th quarter of 2016, the General Meeting of CEMG was convened to, at an extraordinary meeting to be held on 22 November 2016, deliberate on the transformation of CEMG into a Public Limited Company (“*sociedade anónima*”) and the consequent amendment of its articles of association.

The General Meeting was held on the referred date, within the scope of a determination from the Bank of Portugal, dated as of 21 November 2016, pursuant to which CEMG shall be transformed into a Public Limited Company (“*sociedade anónima*”) within six months of the Bank of Portugal's resolution date (21 November 2016), in accordance with number 2 of article 6 of Decree-Law No. 190/2015 of 10 September, which approved the regulatory framework of the Savings Banks (*Regime Jurídico das Caixas Económicas*).

The participants in the Extraordinary General Meeting approved, by majority, to transform Caixa Económica Montepio Geral into a Public Limited Company (“*sociedade anónima*”), as well as the project relating to the amended articles of association.

The project for the amended articles of association was approved in its entirety, without prejudice to the reconsideration of some matters depending on the recommendations or decisions conveyed by the supervising authorities. As the knowledge of such recommendations or decisions is key to the conclusion of the matters being discussed the session was suspended till 13 December 2016, at 15:00, in the same venue.

The Extraordinary General Meeting was resumed on 13 December 2016 and the only issue on the agenda was decided as follows:

1. Acknowledgement of Bank of Portugal's determination to make compulsory the transformation of Caixa Económica Montepio Geral (**CEMG**) from a savings bank annexed to Montepio Geral – Associação Mutualista into a full service savings bank (*caixa económica bancária*), adopting the form of a public limited company, such determination was accepted without reserves, and therefore the General Meeting agreed with the said transformation;
2. CEMG shall take all the necessary procedures to ensure the fulfilment of the aforementioned determination;
3. The share capital amounting to EUR 1,770,000,000 of the transformed entity shall be comprised of 1,770,000,000 nominative, book-entry shares, with a nominal value of €1 (one euro) each, all registered to Montepio Geral – Associação Mutualista;
4. The Participation Fund will continue existing in its current terms and in accordance with the provisions of CEMG's Articles of Association, until the end of the first quarter of 2018, at which time it will be decided to amortise the Participation Fund or to convert it into share capital, according to the terms and conditions to be resolved in due course;
5. These resolutions will be ratified at the general meeting of Montepio Geral Associação Mutualista (**MGAM**), under the provisions of article 6 no. 4(g) of Decree-Law no. 190/2015 of September 10, combined with articles 33.º and 32.º from CEMG's articles of association and articles 23, no. 1, 1b) and 2, article 25(g) from MGAM's articles of association;
6. Since there is no change in the structure and nature of the General and Supervisory Board, Executive Board of Directors, Remuneration Committee, Evaluation Committee, Risk Committee and Statutory Auditor, the elected members of these corporate bodies will remain in place until the end of their respective terms;
7. This general meeting was suspended and resumed on January 6, 2017, at 15:00, in the same venue.

On 13 December 2016 and in accordance with article 22 no.1 c) of the Issuer's by-laws, a General Meeting



has been convened to be held on 28 December 2016 in order to approve the annual action plan and the budget for 2017.

In the General Meeting held on 28 December 2016 it was approved, by unanimity:

- i) The “Strategic Guidelines and Budget Plan for 2017” presented by the Executive Board of Directors of CEMG; and
- ii) to recommend to the Executive Board of Directors of CEMG that, until January 15, 2017, the following additional and development measures should be considered:
  1. Introduction of complementary measures to ensure CEMG's strategic alignment with the Montepio Group's mutual objectives;
  2. Inclusion of commercial objectives for 2017, regarding the associative activity of Montepio Geral Associação Mutualista (MGAM);
  3. CEMG's Participation in the constitution of the Complementary Company Grouping - Montepio Serviços, ACE;
  4. Following the principles of the creation of Complementary Company Groupings in the Montepio Group, in which MGAM assumes the majority of the capital and ensures the balance of relationship in the pursuit of the Montepio Group's interests, CEMG will submit a proposal to be deliberated at the General Meeting, regarding the participation in Montepio Serviços, ACE.

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

1. Recommendations of the Banco de Portugal were included for the modification of the Issuer's project relating to the new articles of association, which was approved, by majority, at the General Meeting held on November 22, 2016;
2. It was resolved, with only one abstention vote, that the Executive Board of Directors of the Issuer should formalize the process of its transformation into a public limited company.

On 4 April 2017, an Extraordinary General Meeting was held, in which the transformation of CEMG into a Public Limited Company was definitively resolved with the following proposals approved:

1. The Information Report (“*Relatório Informativo*” and the Issuer's draft Articles of Association, on their exact terms as agreed and previously approved by Bank of Portugal, and the consequent approval of the Issuer's transformation into a Public Limited Company (“*sociedade anónima*”);
2. The Executive Board of Directors of the Issuer should carry out all the necessary actions towards the implementation of the said transformation of the Issuer into a Public Limited Company (“*sociedade anónima*”), without prejudice to the assignments granted to Montepio Geral - Associação Mutualista;
3. To request from Montepio Geral - Associação Mutualista, through its Board of Directors, the necessary cooperation towards the expeditious completion of the ratification of the resolution to transform the Issuer into a Public Limited Company (“*sociedade anónima*”).

On the same date, the Issuer further informed that it had been notified that:

1. The Bank of Portugal had given a favorable opinion regarding the compliance of the Information Report (“*Relatório Informativo*”) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (“*caixa económica bancária*”) into a Public Limited Company (“*sociedade anónima*”), as had been proposed by the the Issuer's Executive Board of Directors,
2. The Bank of Portugal had approved the amendments to CEMG's draft Articles of Association arisen from the aforementioned transformation; and

The effectiveness of the resolutions approved in the Extraordinary General Meeting, regarding the transformation into a Public Limited Company (“*sociedade anónima*”), are conditional on both: (i) ratification by the General Meeting of Montepio Geral Associação Mutualista, to be held no later than 9 May 2017; and (ii) their respective registration. Upon these conditions being met, CEMG's capital shall be represented in full by ordinary shares.

## 2016 consolidated activity and results

On 29 March 2017, the Issuer presented the results of its consolidated activity for the year of 2016 (unaudited financial information). The main highlights in respect of the Issuer's activity in this period are as follows:

### Capital

The Institutional Capital and the Participation Fund of Caixa Económica Montepio Geral (CEMG) amounted to €2,170 million at the end of 2016. This amount incorporates the institutional capital increase of €270 million fully subscribed by Montepio Geral – Associação Mutualista (MGAM) in March 2016.

The reinforcement of own funds by 2.2% accomplished in 2016, combined with the €1,203 million reduction of Risk-Weighted Assets (-8.6%), derived from the effective management of the risk allocation in the loan portfolio and in the debt securities portfolio contributed to an improvement of the capital ratios. As a result, when compared to the end of 2015, the Common Equity Tier 1 (CET1) and the Total Capital ratios<sup>5</sup> increased from 8.8% to 10.4% and from 9.7% to 10.9%, respectively.

The capital ratios includes the negative effect resulting from the assessment of the Pension Fund's liabilities, related to the change in the actuarial assumptions, the resizing costs and the review of the CEMG's Collective Labor Agreement.

These capital ratios do not include the positive effects associated to the Deferred Tax Assets regime (estimated at +30 bps), the endorsement of which was approved at CEMG's Extraordinary General Meeting held on 6 July 2016.

	(million euros)		
	2015	2016	Change
<b>BASEL III - CRD IV / CRR</b>			
<b>Total Capital</b>	<b>1 360</b>	<b>1 391</b>	<b>2.2%</b>
Common Equity Tier 1 capital	1 231	1 330	8.0%
Tier 1 capital	1 231	1 330	8.0%
Tier 2 capital	137	74	(45.9%)
Risk weighted assets	13 962	12 759	(8.6%)
<b>Total Capital ratio (phasing-in)</b>	<b>9.7%</b>	<b>10.9%</b>	116 bp
<b>Tier 1 ratio (phasing-in)</b>	<b>8.8%</b>	<b>10.4%</b>	160 bp
<b>CET1 ratio (phasing-in)</b>	<b>8.8%</b>	<b>10.4%</b>	160 bp
<b>CET1 ratio (fully implemented)</b>	<b>6.7%</b>	<b>7.8%</b>	102 bp

Calculations as per our interpretation to date.

### Liquidity

<sup>5</sup> In accordance with CRD IV/CRR Phasing-in.

Net assets amounted to €21,449 million, having increased by 0.9% when compared to the value recorded as of 31 December 2015, supported by the diversification of the balance sheet into different financial asset classes but undermined by the still lukewarm demand for credit.

Customers' deposits had a quarter-on-quarter growth of +€279.6 million (+2.3%) and continued to be the main source of funding, accounting for 62.4% of the total funding sources. An analysis per customer segment shows that the Individuals are the main source of deposits with a 75.3% share, while the corporate and institutional segments represent 24.7%.

Throughout 2016, CEMG assured the repayment of €751 million of liabilities represented by debt securities, with refinancing at the European Central Bank standing at €2,323 million, registering a reduction of €295.7 million (-11.3%), when compared to the end of the third quarter of 2016.

The Liquidity Coverage Ratio (LCR) stood at 106.6%, which compares to 111.4% in the same period of the previous year, comfortably above the 70% minimum requirement in 2016. Special note should also be made to the maintenance of an adequate and balanced commercial gap, with the CTD ratio, taking into account the loans and customers' resources, standing at 100.1% (98.5% as of 31 December 2015).

### **Asset Quality**

At the end of 2016, gross loans to customers reached a total of €15,041 million, representing a 3.7% decrease in relation to the same period of the previous year, reflecting, on the one hand, the stringent risk management policy in the underwriting criteria as well as the risk-adjusted repricing, and, on the other the limited credit demand from the economic agents.

The performance of the loan portfolio in 2016, continued to reflect the higher level of mortgage loan repayments when compared to the new origination amounts, giving rise to a year-on-year reduction of 4.7%, as well as the reduction in the companies segment (-4.8%), impacted by the decrease in the construction loans.

During 2016 the outstanding amount of the new non-performing loans<sup>6</sup> decreased by 33.9% year-on-year, following the reduction of 0.9% in the number of new overdue loans.

Throughout 2016 there was a recurring quarterly reduction of the amount of credit at risk (variation of - 0.6% from the first to the second quarter, -1.3% from the second to the third quarter and -2.8% from the third to the fourth quarter of 2016), resulting in a credit at risk ratio of 15.2% in 31 December 2016, which compares to 15.6% in the first half of 2016. Compared with the year-end of 2015, the credit at risk ratio increased by 66bps, of which 56bps were driven by the reduction in the loan portfolio.

The coverage of credit at risk by impairments and associated real estate collateral reached 119.9% in 31 December 2016, which compares to 126.4% in the year-end of 2015.

### **Earnings**

The 2016 net income revealed an improvement of €156.9 million to -€86.5 million, which compares to the net income of €-243.4 million, recorded in 2015.

In 2016, against a backdrop of historically very low interest rates, the net interest income showed a year-on-year increase of 29.2% reaching €253.2 million, driven by the reduction of the customers' deposits interest rates, as well as the reduction of the debt represented by securities which was replaced by less onerous sources of funding and by the application of a strict repricing policy of the loan portfolio. The net interest income in the 4th quarter 2016 increased by 12.4%, from €66.6 million to €74.9 million, compared with the previous quarter.

With respect to the core banking activity, net fees and commissions recorded a 5.6% increase in 2016 when compared to 2015, reaching €101.5 million, which compares to €96.1 million in the same period of the

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<sup>6</sup> Credits overdue for more than 90 days and the related falling due (ie the total principal amount of the loans overdue > 90d)

previous year.

The positive performance of the net interest income and the net fees and commissions provided a favourable evolution in the commercial operating income<sup>7</sup> which increased by 12.3% compared to the same period in the previous year.

The results from financial operations in 2016 amounted to €37.0 million, which compares to €102.7 million in 2015. This reduction was mainly driven by the sale of Portuguese sovereign debt securities recorded in 2015, in an amount of €85.2 million, whereas in 2016 the results with these sales were €3.2 million.

Operating costs in 2016 decreased by 10.4%<sup>8</sup> year-on-year, reaching €295.1 million. The improvement in operational efficiency levels as foreseen in the Strategic Plan 2016-2018 was achieved in 2016 by the closure of 94 branches in Portugal and by the reduction of 442 CEMG employees (including the transferred employees and the suspensions of the employment relationship), under the early retirement programme and negotiated dismissals, leading to a 13.5% decrease in the staff costs and 17.9% in the general administrative expenses.

By the end of 2016, the cost-to-income efficiency ratio stood at 80.4%, a favorable evolution compared to the ratio of 81.7% recorded at the end of 2015. Excluding the results of financial operations, the effect of the operational structure resizing process and the revision of the collective labour agreement, the efficiency ratio stood at 93.4% compared to 109.7% in 2015.

The favorable performance observed in 2016 provided an improvement of the commercial activity results<sup>9</sup>, reaching €65.6 million, which compares to €-8.3 million in 2015 (+€73.9 million).

In 2016, the impairment charges stood at €243.2 million, which represents a decrease of 29.3% year-on-year, against €343.8 million in 2015. The maintenance of a very stringent credit underwriting policy has contributed to the reduction of the cost of risk which stood at 1.2% in 2016, which compares to 1.5% in the end of 2015.

CEMG group international activity is carried out through the business developed by the subsidiaries in Angola (Finibanco Angola), Mozambique (BTM) and Cape Verde (Banco MG Cabo Verde).

In 2016, Finibanco Angola S.A. reported a net income of €10.8 million, which compares to €9.1 million in the same period of 2015 (+18.6%) supported by a reduction of operating costs by €2.6 million and a decrease of impairments and provisions by €4.9 million, partially offset by the adverse variation in the net operating income in €7.6 million influenced by Kwanza devaluation.

BTM, S.A., presented a positive net income of €68 thousand in 2016, which compares to negative net income of €816 thousand in 2015, benefiting from the 35.2% increase of net operating income and from the 32.3% reduction in operating costs.

Banco MG Cabo Verde, Sociedade Unipessoal, S.A. recorded a negative net income of €13 thousand, which compares to €1,226 thousand in 2015. This outcome was derived from the net operating income reduction in €1,334 thousand and the operating costs decrease in €95 thousand.

## Key Indicators

2015*	2016	Y-o-Y Change 2015 /
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<sup>7</sup> Comercial net interest income + Net commissions.

<sup>8</sup> Excludes the impact related to the process of resizing the operation structure and the revision of the Collective labour agreement.

<sup>9</sup> Net interest income + Net commissions – Operating costs, excluding the impact related to the process of resizing the operation structure and the revision of the Collective labour agreement.

			2016
<b>ACTIVITY AND RESULTS (EUR million)</b>			
Net Assets	21 256	21 449	0.9%
Gross loans to Customers	15 611	15 041	(3.7%)
Customers' Deposits	12 540	12 468	(0.6%)
Net Income	(243)	(86)	64.5%
<b>SOLVENCY</b>			
Common Equity Tier 1 ratio (CRD IV / CRR, phasing-in)	8.8%	10.4%	1.6 p.p.
Tier 1 ratio (CRD IV / CRR, phasing-in)	8.8%	10.4%	1.6 p.p.
Total Capital ratio (CRD IV / CRR, phasing-in)	9.7%	10.9%	1.2 p.p.
Risk Weighted Assets	13 962	12 759	(8.6%)
<b>LEVERAGE RATIOS</b>			
Net loans to Customers (a)	114.5%	111.2%	(3.3 p.p.)
Net loans to Customers / On-Balance sheet Customers' resources (b)	98.5%	100.1%	1.6 p.p.
<b>CREDIT RISK AND COVERAGE BY IMPAIRMENTS</b>			
Cost of credit risk	1.5%	1.2%	(0.3 p.p.)
Ratio of loans and interest overdue by more than 90 days	7.6%	8.9%	1.3 p.p.
Non-performing loans ratio (a)	9.7%	11.5%	1.8 p.p.
Net non-performing loans ratio (a)	1.8%	3.9%	2.1 p.p.
Coverage of loans and interest overdue by more than 90 days	105.4%	87.6%	(17.8 p.p.)
Credit at risk ratio (a)	14.6%	15.2%	0.6 p.p.
Net credit at risk (a)	7.1%	8.0%	0.9 p.p.
Credit at risk coverage ratio	55.2%	51.5%	(3.7 p.p.)
Credit at risk coverage ratio, factoring-in related real estate collateral	126.4%	119.9%	(6.5 p.p.)
Restructured loans as a % of total loans (c)	9.8%	8.9%	(0.9 p.p.)
Restructured loans not included in credit at risk as a % of total loans (c)	4.1%	3.2%	(0.9 p.p.)
<b>EFFICIENCY AND PROFITABILITY</b>			
Net operating income / Average net assets (a)	1.8%	1.6%	(0.2 p.p.)
Earnings before Tax / Average net assets (a)	(1.2%)	(0.8%)	0.4 p.p.
Earnings before Tax / Average equity (a)	(19.0%)	(11.5%)	7.5 p.p.
Cost-to-Income (Operating costs / Net banking income) (a)	81.7%	80.4%	(1.3 p.p.)
Cost-to-Income, excluding specific effects (d)	109.7%	93.4%	(16.3 p.p.)
Staff costs / Net banking income (a)	47.5%	46.9%	(0.6 p.p.)
<b>EMPLOYEES AND DISTRIBUTION NETWORK (Number)</b>			
Employees			

Group total	4 404	4 155	(249)
CEMG	3 871	3 588	(283)
Branches			
Domestic - CEMG	421	327	(94)
International	30	33	3
Finibanco Angola (e)	21	23	2
BTM (Mozambique)	9	10	1
Rep. Offices	6	6	0

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version

(b) Total On-Balance sheet Customers' resources = Customers' Deposits and Debt securities issued

(c) Pursuant to Banco de Portugal Instruction No. 32/2013

(d) Excludes results from financial operations, costs related to resizing staff programme and revision of the Collective Labor Agreement

(e) Includes Business Centers

\*restated in accordance with IFRS5 guidelines with respect to the accounts of Finibanco Angola and BTM subsidiaries.

## **EXECUTIVE BOARD OF DIRECTORS AND OTHER GOVERNING BODIES OF THE ISSUER**

With the implementation of the new Articles of Association in 2013, the Issuer's governance structure comprises specific management and supervisory bodies, separate from those of MGAM. Nonetheless, as the Issuer is an entity annexed to MGAM, there exists a core of shared strategic principles.

More recently, in the General Meeting held on 30 April 2015 and continued on 27 May 2015, a partial amendment of the Issuer's by-laws was approved. The amended by-laws were ratified by the General Meeting of MGAM held on 25 June 2015, pursuant to article 36, no. 8, of the Issuer's by-laws and registrations with the Bank of Portugal and the competent Commercial Registry Department before entering into force.

These amendments were, fundamentally, the consequence of changes in the banking law (in particular, Decree-Law no. 157/2014, of 24 October, which introduced a significant number of changes in the RGICSF).

One of the key amendments to the Issuer's by-laws relates to the way members of the different governing bodies are elected. Pursuant to the amended by-laws, as approved in the said General Meeting of MGAM held on 25 June 2015, all governing bodies are elected in the General Meeting of the Issuer (i.e. members of the Board of Directors of MGAM will no longer be statutorily members of the General and Supervisory Board of the Issuer).

One other relevant amendment is the inclusion of new governing bodies, which are now legally foreseen in the RGICSF: (i) a Remuneration Committee; (ii) an Evaluation Committee; and (iii) a Risk Committee. The members of these new governing bodies are also elected in the General Meeting of the Issuer.

Therefore, the Issuer's current governance structure comprises the General Meeting Board, the General and Supervisory Board, the Executive Board of Directors, the Remunerations Committee, the Statutory Auditor, the Evaluation Committee and the Risk Committee.

On 22 July 2015 an Issuer's Extraordinary General Meeting has been convened to elect, *inter alia*, the members of its Executive Board of Directors and General and Supervisory Board for the term 2015/2018. This Extraordinary General Meeting took place on 5 August 2015. The respective announcement (*convocatória*) and relevant proposals are available at [www.cmvm.pt](http://www.cmvm.pt) and [www.montepio.pt](http://www.montepio.pt).

The following were the members of the Executive Board of Directors of the Issuer for the term 2013/2015, which were appointed in the Issuer's general meeting dated 19 February 2013:

<b>Executive Board of Directors</b>		<b>Other positions</b>
António Tomás Correia	Chairman	Chairman of the Board of Directors of Montepio Geral Associação Mutualista
		Chairman of the Board of Directors of Finibanco Angola, S.A.
		Member of the Remuneration Committee of Futuro – Soc. Gestora de Fundos de Pensões, S.A.
		Member of the Remuneration Committee of Montepio Valor, S.A.
		Member of the Remuneration Committee of Montepio Gestão de Ativos – SGFI, S.A.

<b>Executive Board of Directors</b>		<b>Other positions</b>
Jorge Humberto Barros Luís	Board Member	Chairman of the Board of Directors of Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A. Chairman of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A. Member of the Board of Directors of Montepio Gestão de Activos Imobiliários, A.C.E.  Member of the Board of Directors of Montepio Holding, SGPS, S.A.
Pedro Miguel de Almeida Alves Ribeiro	Board Member	Chairman of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Montepio Investimento, S.A. Member of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A. Member of the Board of Directors of SIBS – Soc. Interbancária de Serviços, S.A. Member of the Board of Directors of UNICRE – Instituição Financeira de Crédito, S.A. Chairman of Montepio – Capital de Risco, SCR, S.A.
Fernando Paulo Pereira Magalhães	Board Member	Chairman of the Board of Directors of MG Cabo Verde, Soc.Unipessoal, S.A. Member of the Board of Directors of Montepio Holding SGPS, S.A. Member of the Board of Directors of Montepio Recuperação de Crédito, A.C.E. Member of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A.
Joao Carlos Martins Cunha Neves (*)	Board Member	Member of the Board of Directors of Banco Terra, S.A. Member of the Board of Directors of Finibanco Angola, S.A.

(\*) Elected as member of the Executive Board of Directors to the 2013-2015 mandate in the Issuer's general meeting dated 10 December 2014.

Following the approval by the Bank of Portugal, the **Executive Board of Directors** elected in the extraordinary General Meeting held on 5 August 2015, started their functions as of 7 August 2015. The following are the members of the Executive Board of Directors of the Issuer until 31 December 2018:



<b>Executive Board of Directors</b>		<b>Other positions</b>
José Manuel Félix Morgado	Chairman	Chairman of the Board of Directors of Finibanco Angola, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Banco Terra, S.A.
João Carlos Martins da Cunha Neves	Board Member	Member of the Board of Montepio Holding SGPS, S.A. Member of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Banco MG Cabo Verde, Soc. Unipessoal, S.A
Luís Gabriel Moreira Maia Almeida	Board Member	No other positions
Fernando Ferreira Santo	Board Member	Member of the Board of Montepio Gestão de Activos Imobiliários, ACE
João Belard da Fonseca Lopes Raimundo	Board Member	Chairman of SIBS, SGPS, S.A. and SIBS FPS – Forward Payment Solutions, S.A. Chairman of the Board of Directors of Montepio Investimento, S.A. Member of the Board of Montepio Holding, SGPS, S.A.
Jorge Manuel Viana de	Board Member	No other positions
Luís Miguel Resende de Jesus	Board Member	Member of the Board of Montepio Holding, SGPS, S.A.

The following are the members of the **Statutory Auditor**:

KPMG & Associados - SROC, S.A., registered at CMVM with the number 9098, the Head Office at Edifício Monumental, Av. Praia da Vitória no. 71-A, 11.º andar, 1069-006 Lisboa;

Represented by Jean-Eric Gaign (ROC no. 1013), elected statutory auditor of the Issuer for the period 2013-2015, having taken up the position from 16 August 2013 onwards, responsible for the audit and certification of the annual Accounts for the period ended on 31 December 2013 and 31 December 2014.

In the General Meeting held on 30 December 2015, KPMG & Associados – SROC, S.A., represented by Ana Cristina Soares Valente Dourado (ROC nº1011) was elected for the term 2016/2018.

Prior to the amended by-laws, as approved in the General Meeting of MGAM held on 25 June 2015, the Issuer's General Meeting Board was made up of MGAM's General Board members elected pursuant to article 29, number 1 of their respective Articles of Association. The General Meeting Board was made up of one Chairman and two Secretaries, as follows:

<b>General Meeting Board</b>		<b>Other positions</b>
Vitor José Melícias Lopes	Chairman	No other positions
António Pedro de Sá Alves Sameiro	First Secretary	No other positions
António Dias Sequeira	Second Secretary	No other positions

Pursuant to the amended by-laws, as approved in the General Meeting of MGAM held on 25 June 2015, all governing bodies are elected in the General Meeting of the Issuer (i.e. members of the Board of Directors of MGAM will no longer be statutory members of the General and Supervisory Board of the Issuer). The current Issuer's **General Meeting Board** is made up of one Chairman and two Secretaries, elected in the General Meeting of the Issuer held on 5 August 2015, as follows:

<b>General Meeting Board</b>		<b>Other positions</b>
Vitor José Melícias Lopes <sup>(1)</sup>	Chairman	No other positions
Manuel Duarte Cardoso Martins	First Secretary	No other positions
António Dias Sequeira <sup>(2)</sup>	Second Secretary	No other positions

<sup>(1)</sup> Resigned on 31 December 2015 and succeeded by the First Secretary, Manuel Duarte Cardoso Martins, which was in turn replaced by Maria Leonor Loureiro Gonçalves de Oliveira Guimarães

<sup>(2)</sup> Resigned on 31 December 2015 and replaced by Cassiano Cunha Galvão

Prior to the amended by-laws, the following were the members of the Issuer's General and Supervisory Board, for the term 2013/2015:

<b>General and Supervisory Board</b>		<b>Other positions</b>
José de Almeida Serra	Chairman	Chairman of the Board of Directors of Montepio Gestão de Ativos – SGFI, S.A. Chairman of the Board of Directors of Futuro – Soc. Gestora de Fundos de Pensões, S.A. Chairman of the Board of Directors of Lestinvest, SGPS, S.A. Chairman of the Board of Directors of Montepio Gestão de Activos Imobiliários, A.C.E. Chairman of the Board of Directors of Montepio Imóveis – Soc. Imobiliário de Serviços Auxiliares, S.A. Member of the Remuneration Committee of SAGIES – Segurança, Higiene e Saúde no Trabalho, S.A. Member of the Remuneration Committee of Clínica CUF Belém, S.A.

General and Supervisory Board		Other positions
Eduardo José da Silva Farinha	Member	<p>Chairman of the General Meeting Board of Montepio Gestão de Ativos – SGFI, S.A.</p> <p>Chairman of the Board of Directors of Lusitania - Companhia de Seguros, S.A. Chairman of the Board of Directors of Lusitania Vida - Companhia de Seguros, S.A.</p> <p>Chairman of the Board of Directors of Montepio Seguros, SGPS, S.A.</p> <p>Member of the Board of Directors of Clínica CUF Belém, S.A.</p> <p>Member of the Board of Directors of Lestinvest, SGPS, S.A.</p> <p>Member of the Board of Directors of SAGIES – Segurança, Higiene e Saúde no Trabalho, S.A.</p> <p>Chairman of the Remuneration Committee of Bolsimo – Gestão de Ativos, S.A.</p> <p>Member of the Remuneration Committee of Futuro – Sociedade Gestora de Fundos de Pensões, S.A.</p> <p>Member of the Remuneration Committee of Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.</p>
Vitor José Melícias Lopes	Member	No other positions
Carlos Morais Beato	Member	Chairman of Residências Montepio, Serviços de Saúde, S.A.
Álvaro João Duarte Pinto Correia	Member	<p>Chairman of the Supervisory Board of Centro Português de Fundações</p> <p>Chairman of the Supervisory Board of União das Cidades Capitais de Língua Portuguesa</p> <p>Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A.</p> <p>Chairman of the Remuneration Committee of Pharol, SGPS, S.A.</p> <p>Member of the Remuneration Committee of EDP – Energias de Portugal, S.A.</p>
Gabriel José dos Santos Fernandes (ROC)	Member	<p>Chairman of the Supervisory Board of Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.</p> <p>Chairman of the General Meeting Board of Amperel, S.A.</p> <p>Chairman of the General Meeting Board of Gesventure, S.A.</p>

<b>General and Supervisory Board</b>		<b>Other positions</b>
Luísa Maria Xavier Machado	Member	Deputy Director of the Compliance Division of Caixa Económica Montepio Geral
Maria Manuela da Silva	Member	Chairman of Comissão Nacional Justiça e Paz
António Gonçalves Ribeiro	Member	No other positions
Eugénio Óscar Garcia Rosa		External Consultant of CGTP-IN External Consultant of Federação Nacional dos Sindicatos da Administração Pública

Pursuant to the amended by-laws, as approved in the General Meeting of MGAM held on 25 June 2015, the following are the members of the Issuer's General and Supervisory Board, elected in the General Meeting of the Issuer held on 5 August 2015.

<b>General and Supervisory Board</b>		<b>Other positions</b>
Álvaro Duarte Pinto Correia	Chairman	Chairman of the Supervisory Board of Centro Português de Fundações Chairman of the Supervisory Board of União das Cidades Capitais de Língua Portuguesa Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A. Chairman of the Remuneration Committee of Pharol, SGPS, S.A. Member of the Remuneration Committee of EDP – Energias de Portugal, S.A.
José Carlos Correia Mota de Andrade (*)	Member	No other positions
António Fernando Menezes Rodrigues	Member	No other positions
José António Arez Romão	Member	No other positions
Manuel Costa Duarte Ramos Lopes (**)	Member	No other positions
Vitor Manuel do Carmo Martins	Member	No other positions
Francisco José Fonseca da Silva	Member	No other positions
Acácio Jaime Liberato Mota Piloto	Member	No other positions
Luís Eduardo H. Guimarães	Member	No other positions
Rui Pedro Brás de Matos Heitor (***)	Member	
Eugénio Óscar Garcia Rosa	Member	External Consultant of CGTP-IN External Consultant of Federação Nacional dos Sindicatos da Administração Pública

(\*) Elected in the General Meeting of the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Fernando Lopes Ribeiro Mendes that resigned following his election as member of the Board of Directors of MGAM

(\*\*) Elected in the General Meeting of the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Virgílio Manuel Boavista Lima that resigned following his election as member of the Board of Directors of MGAM

(\*\*\*) After 1 December 2015, replacing Luísa Maria Xavier Machado

Prior to the amended by-laws, the following were the members of the Issuer's Remuneration Committee:

<b>Name</b>	<b>Position</b>
Luís Eduardo da Silva Barbosa	Chairman
José Eduardo Fragoso Tavares de Bettencourt (*)	Member
José Carlos Pereira Lilaia	Member
(*) resigned on 13 February 2015	

Pursuant to the amended by-laws, as approved in the General Meeting of MGAM held on 25 June 2015, the following are the members of the Issuer's **Remuneration Committee**, elected in the General Meeting of the Issuer held on 5 August 2015:

<b>Remuneration Committee</b>	<b>Position</b>
Álvaro João Duarte Pinto Correia	Chairman
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
Francisco José Fonseca da Silva (**)	Member
(*) resigned because he was elected as a member of the Board of Directors of MGAM	
(**) elected as substitute of Fernando Lopes Ribeiro Mendes	

The following are the members of the Issuer's **Evaluation Committee**, elected in the General Meeting of the Issuer held on 5 August 2015:

<b>Evaluation Committee</b>	<b>Position</b>
Álvaro João Duarte Pinto Correia	Chairman
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
José Carlos Correia Mota de Andrade (**)	Member
(*) resigned because he was elected as a member of the Board of Directors of MGAM	
(**) elected as substitute of Fernando Lopes Ribeiro Mendes	

The following are the members of the Issuer's **Risk Committee**, elected in the General Meeting of the Issuer held on 5 August 2015:

<b>Risk Committee</b>	<b>Position</b>
Acácio Jaime Liberato Mota Piloto	Chairman
Virgílio Manuel Boavista Lima (*)	Member
Luís Eduardo H. Guimarães	Member
Francisco José Fonseca da Silva (**)	Member

(\*) resigned because he was elected as a member of the Board of Directors of MGAM  
(\*\*) elected as substitute of Virgílio Manuel Boavista Lima

Prior to the amended by-laws, the following were the members of the Issuer's Financial Matters Committee, for the term 2013/2015:

<b>Name</b>	<b>Position</b>
Álvaro João Duarte Pinto Correia	Chairman
Gabriel José dos Santos Fernandes	Member
Luísa Maria Xavier Machado	Member
Eugénio Óscar Garcia Rosa	Member

The following are the members of the Issuer's Financial Matters Committee, elected in the General Meeting of the Issuer held on 5 August 2015:

<b>Name</b>	<b>Position</b>
Virgílio Manuel Boavista Lima(*)	Chairman
Eugénio Óscar Garcia Rosa	Member
Vitor Manuel do Carmo Martins	Member
Luís Eduardo H. Guimarães(**)	Coordinator

(\*) ceased functions following his election as member of the General and Supervisory Board of CEMG.

Following his election as a member of the Board of Directors of MGAM, later he resigned as a member of the General and Supervisory Board of CEMG

(\*\*) elected as substitute of Virgílio Manuel Boavista Lima

The areas of focus of each governing body are as follows:

### **General Meeting**

The General Meeting of the Issuer is composed of MGAM's General Board members elected pursuant to article 29, number 1 of its respective Articles of Association.

The General Meeting is convened by the President of the General Meeting Board.

The General Meeting, pursuant to the statutory provisions, is the body entrusted with taking decisions including, amongst others, the approval of the annual accounts, the appraisal of its management and

supervision, and the election of the governing bodies.

The General Meeting holds ordinary sessions before May 31 each year to:

- a) make decisions regarding the previous financial year's reports and accounts;
- b) make decisions regarding the achievement of results;
- c) undertake general assessments of management performance and effect the removal of directors;
- d) elect members of the Governing Bodies every three years; and
- e) reach a decision on any other matter included in the notice of meeting.

Decisions are solely connected with matters contained in the convening notice and are passed by simple majority on a one person, one vote basis.

The General Meeting holds extraordinary sessions to:

- a) amend the Articles of Association;
- b) reach decisions regarding possible mergers, splits, dissolutions and the incorporation of the Issuer;
- c) elect heads of the Governing Bodies in cases where a vacancy cannot be filled by appointing an alternate member; and
- d) deal with any other issue that may be of interest to the Issuer that falls within the power of the General Meeting Board, on the initiative of the Chairman of the General Meeting Board, upon the request of any of the Bodies, or following a demand by at least five of its members.

The convened General Meeting shall, after giving not less than 15 days notice, be considered validly formed and any decisions taken shall be deemed valid and binding, irrespective of the number of members present save in the following two circumstances: (i) if the decision would entail increased spending and/or reduced revenue, or (ii) if the decision involves amending the Articles of Association or merging, splitting, dissolving or affecting the incorporation of the Issuer. In such cases, a quorum of at least two thirds of all members and final ratification by the General Meeting Board of MGAM will be required.

### **General and Supervisory Board**

The General and Supervisory Board is made up by 11 members elected in the Issuer's General Meeting that also elects its Chairman. In order to ensure the representation of minorities in the General and Supervisory Board the election of an independent member through may be discussed and voted in the Issuer's General Meeting following a specific proposal presented by at least three members of the General Meeting who voted against the winning list in the election, replacing the candidate elected by this minority by the last one included in the winning list.

The General and Supervisory Board holds meetings, at least on a monthly basis, and is specifically entrusted with:

- playing an advisory role and ensuring the ongoing assessment of the institution, analysing the financial reporting documents and supervising the risk policies and financial reporting;
- ensuring the adequacy and effectiveness of the internal control system, in particular in the areas of prudential reporting and compliance with the law;
- supervising the reporting and duties of disclosure to the supervisory entities and other external entities and issuing opinions, namely, on the management report and accounts for the year and on the annual action plan and budget; and
- controlling, analysing and ensuring the effectiveness of the audit function and supervising the independence of the Statutory Auditor.

During the performance of its duties, this body also prepares an annual activity report to be submitted at the

general meeting, together with the documents presenting the accounts, which are made available on the institution's website.

### **Financial Matters Committee**

The Financial Matters Committee is composed by three to five members of the General and Supervisory Board elected in the General Meeting and it is responsible for the implementation of the tasks defined and foreseen in the law.

### **Executive Board of Directors**

The Executive Board of Directors is composed of a Chairman and up to six voting Members, elected in the General Meeting, who oversee the executive management of the Issuer.

The Executive Board of Directors operates on a collegiate basis and meets twice a week. Resolutions can be passed subject to a quorum of 50 per cent. plus one of its members being satisfied. Decisions are taken by simple majority and the Chairman has the casting vote in cases of deadlock.

The Executive Board of Directors is responsible for:

- proposing, for approval at the General Meeting, the proposed Strategic Guidelines of the multiannual action plans and respective updates, as well as the annual Action Plans and Budgets, after the opinion of the General and Supervisory Board;
- annually preparing the report and accounts and the proposed distribution of net income, to be submitted to the opinion of the General and Supervisory Board and deliberation at the General Meeting;
- deliberating on institutional capital increases and on the issue of securities representing units of the Participation Fund, as well as concerning debenture loans;
- deliberating on the opening and closing of branches and of any other form of representation; and
- deliberating on the acquisition, disposals and encumbrance of immovable property.

Areas of responsibility of each member of the Executive Board of Directors, and the respective alternate directors:

<b>Executive Board of Directors</b>	<b>Alternate Director</b>	<b>Area of Responsibility</b>
José Manuel Félix Morgado	João Carlos Martins da Cunha Neves	Human Resources Communications Internal Auditing Compliance Customer Complaints Office General Secretariat Strategic and Innovation Marketing Division
João Carlos Martins da Cunha Neves	João Belard da Fonseca Lopes Raimundo	Financial and Internacional Division Strategic Planning and Accounting Division Investor Relations



<b>Executive Board of Directors</b>	<b>Alternate Director</b>	<b>Area of Responsibility</b>
Luís Gabriel Moreira Maia Almeida	João Belard da Fonseca Lopes Raimundo	Commercial Divisions (North, Centre, Lisbon, South and Islands) Retail Marketing Division Representative Offices Loan Portfolio Monitoring Office
João Belard da Fonseca Lopes Raimundo	Luís Gabriel Moreira Maia Almeida	Commercial Divisions (Corporate and Institutional Investors and Third Sector) Retail Marketing Division Gabinete de Acompanhamento de Ativos Financeiros
Fernando Ferreira Santo	Jorge Manuel Viana de Azevedo Pinto Bravo	Legal Division Litigation Division
Jorge Manuel Viana de Azevedo Pinto Bravo	Fernando Ferreira Santo	Managing Operations and Services IT Division Organizational Development Office
Luís Miguel Resende de Jesus	João Carlos Martins da Cunha Neves	Risk Division Credit Analysis Division Relevant Exposures Monitoring

#### **Evaluation Committee**

The Evaluation Committee is composed by three independent members elected in the General Meeting. It has the responsibility to exercise all the functions and duties related with the internal politics of selection and evaluation of the members of the governing bodies.

#### **Risk Committee**

The Risk Committee is composed by three members of the General and Supervisory Board elected in the General Meeting and it is responsible for the implementation of the tasks defined and foreseen in the law.

#### **Remunerations Committee**

The remuneration of the governing bodies is established by a Committee, composed of three members elected at the General Meeting held on 5 August 2015.

All the members of the Remunerations Committee are independent in relation to the members of the management body and, during the performance of their duties, draw up minutes of the meetings held. At least one of its members should be present at the General Meetings of the Issuer.

#### **Statutory Auditor**

The Statutory Auditor is elected by the General Meeting Board through proposal of the General and Supervisory Board, with the level of competence required by the Commercial Companies Code.

#### **Conflicts of Interest**

While all the members of the governing bodies mentioned above represent the Issuer on their respective boards, none of them have any conflict between their duties to the Issuer and their private interests or other principal activities as listed above.

**Business Addresses**

The business address of the Directors, the Executive Board of Directors and, the General and Supervisory Board Members listed above is Rua Áurea, 219-241, postal code 1122-806, Lisbon, Portugal.

## **CAIXA ECONÓMICA MONTEPIO GERAL AND ITS RELATIONSHIP WITH MGAM**

*The information set out below in relation to MGAM is set out for information only. MGAM is not responsible for payments on the Notes issued under the Programme which are the sole responsibility of Montepio.*

Montepio was established by MGAM as a dependent entity of MGAM with a view to paying to MGAM its annual net profits (subject to any deduction required by Montepio's Articles of Association) so as to enable MGAM to meet its own objectives as a mutual benefit association. MGAM is a “private institution of social support” (i.e. a mutual benefits association) whose principal objects are to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them. MGAM is not permitted to carry out banking or trading activities. It is limited to its principal social welfare objects. MGAM can, however, establish subsidiaries and can invest its funds in a number of ways. It is subject to the Portuguese Mutual Association Code.

The welfare schemes which MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes.

MGAM's main source of funds is membership revenues. Those funds are invested in property and a number of different types of securities and equity participations, particularly financial institutions (including its interest in Montepio). It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

Montepio is a credit institution established under Portuguese law, which, because of its special link with MGAM, is recognised as a “collective person of public interest”. It has separate legal personality and MGAM has no responsibility in respect of Montepio's debts. MGAM has not guaranteed the Notes. MGAM is under no legal obligation to increase Montepio's institutional capital or otherwise to support Montepio. Deposits with Montepio are covered by the Portuguese deposit guarantee fund up to the prescribed limit. Montepio is authorised to carry on business as a universal bank, under the supervision of the Bank of Portugal. It can carry out stock exchange transactions, trade in derivatives (for its own account or otherwise). It is, in principle, required by law to take a mortgage with respect to financing home purchases and, in common with most banks, it is limited in terms of credits and exposures to a single entity.

## THE PORTUGUESE MORTGAGE MARKET

The economic conditions, particularly the decrease in the inflation rate, the related easing of the level of the interest rates and the process of integrating the Portuguese economy into the European Monetary Union, witnessed during the second half of 1990s, have stimulated an improvement in the living conditions of the Portuguese Population. These factors, together with the lack of residential dwellings and the inexpressive rental market, have determined the development of the Portuguese mortgage market.

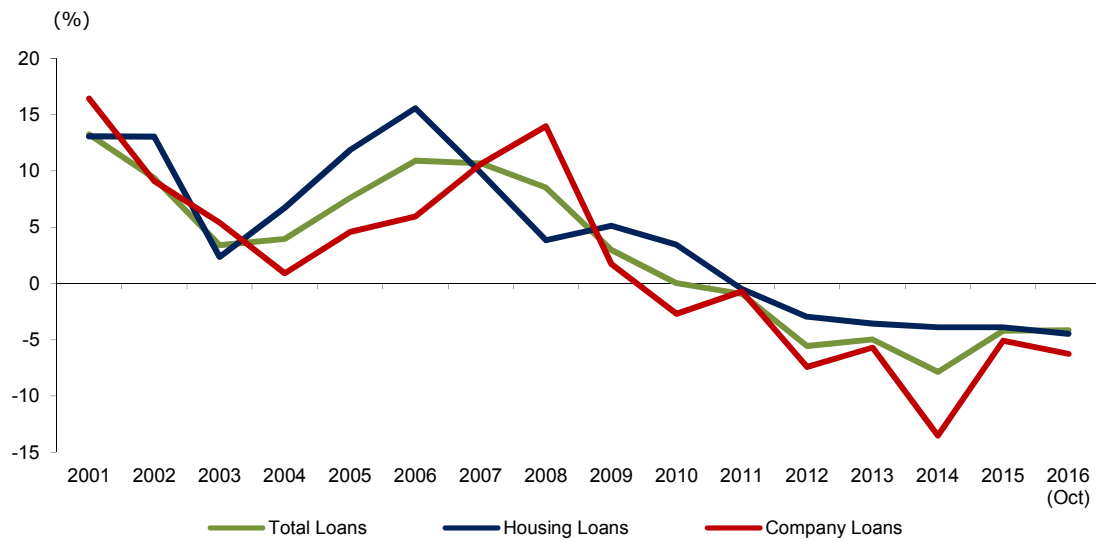
Until 1992, due to legal restrictions, residential mortgage lending was concentrated in only three institutions – the state owned Caixa Geral de Depósitos and Crédito Predial Português (state owned at that time and now integrated in Santander Totta) and the privately owned Caixa Económica Montepio Geral (the Issuer). The deregulation and liberalization of the banking activity implemented created the conditions to the progressive entry of all the banking institutions into the mortgage business, taking advantage of the increased demand for residential mortgage loans as a result of the aforesaid factors. In particular, it is worth noting the impressive decrease in interest rates (Euribor 3M), from a level of 11.7 per cent., in 1993, to -0.319 per cent. as of 29 December 2016, being negative since April 2015.

In 1993, there were 21 different significant operators (institutions) in the Portuguese mortgage market. From 2000, as a result of a succession of mergers and acquisitions, the banking sector has become increasingly concentrated, with the Portuguese residential mortgage market largely dominated by the six largest lenders: Caixa Geral de Depósitos (which still retains market leadership), Millennium BCP, Novo Banco (Ex-Banco Espírito Santo), Santander Totta (controlled by the Spanish BSCH group) Banco Português de Investimento and Caixa Económica Montepio Geral (the Issuer).

As a result of these developments, competition in the residential mortgage market has significantly increased. This is reflected in the strong investment in aggressive advertising campaigns made by the largest lenders to attract new customers and provide them with long-term loans, drawing on recent improvements in the efficiency, speed and quality of the service and technological innovation, which have all had an important impact on the developments witnessed in the residential mortgage market.

Until 2002, the mortgage market grew at a double-digit pace per year, but in 2003, the economic downturn caused a slowdown in the mortgage market. During the period 2003-2006, the mortgage business regained its momentum, though this pace did not last long. In fact, since 2006, the mortgage market began a slowdown movement, with growth levels decelerating from 15.6 per cent. to a decrease of -4.5 per cent., as of October 2016. This deceleration has been intensified by the economic and financial crisis and because of the deleveraging process required under the “Memorandum of Understanding” between Portugal and the IMF/ECB/EC signed in May 2011, together with more stringent underwriting criteria imposed by banks. The deleverage process of the mortgage market had created a downward trend that led to default, decline in the housing prices, the consequent deterioration in the asset prices, the reduction in the money lend by banks, ending up in a severe recession. There are evidences of a heterogenic performance between the real estate residential market and the real estate commercial within the Euro Area. Portugal in the European context reveals opportunities for its real estate residential market, which may have already found its trough and is now recovering. As far as the price per square meter is concerned Portugal has a value that is significant below the European average. Urban rehabilitation is by far one of the major opportunities in the real estate residential market, worth €28 billion, which could be used to improve the economic activity in the construction business, boost employment and enhancing the economic recovery. The rehabilitation market has a characteristic that distinguish from other sectors, which is the investment multiplication factor that is associated to it. The sector is characterized by its abundance in labor force, attracting productive investment which leads to a greater competitive of the economy in the long run.

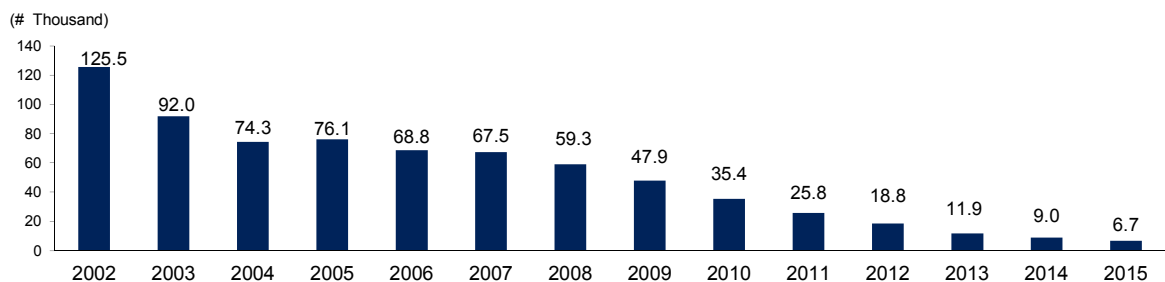
### Loans Growth Rate



Source: Bank of Portugal Statistics

Since 2002 there has been a downward trend in the residential market, with a continued reduction in the number of completed houses.

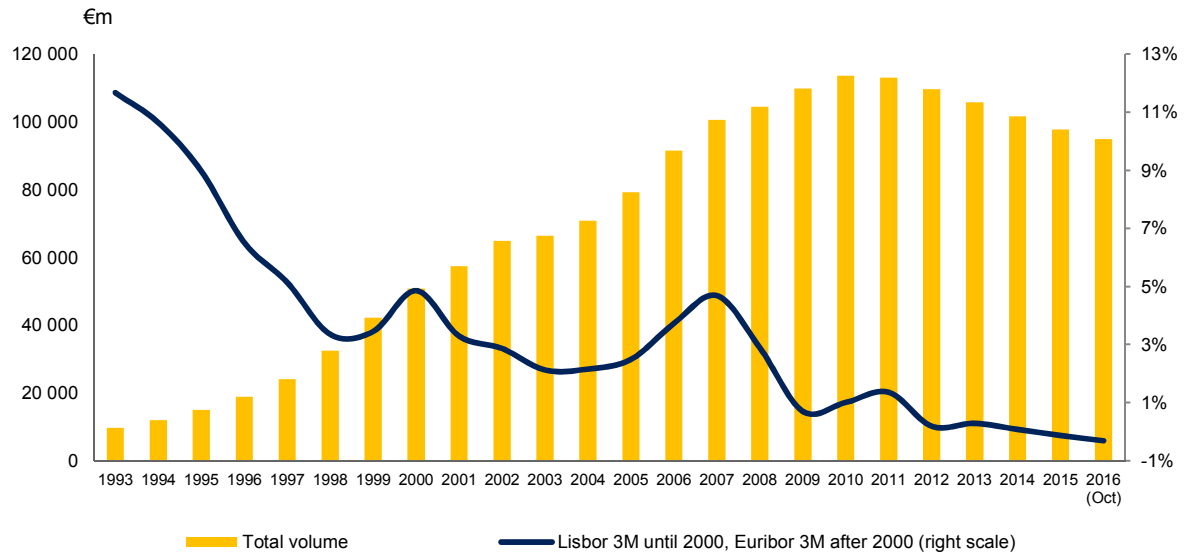
### Completed Houses



Source: INE (National Statistics Institute), Statistical Yearbook, Statistics on Construction Works Completed

In spite of the recent decrease in new housing construction, there is still some potential demand for buildings, which can be explained by the following factors: (i) the surge in the number of families and their changing structure, (ii) the increase of secondary housing and residential tourism, mainly for foreigners, (iii) the demand for refurbishment and renovation works, (iv) the expected gradual development of the rental market, (v) an increase in the investors' risk appetite and (vi) the decrease of the offer to upper classes on the housing market.

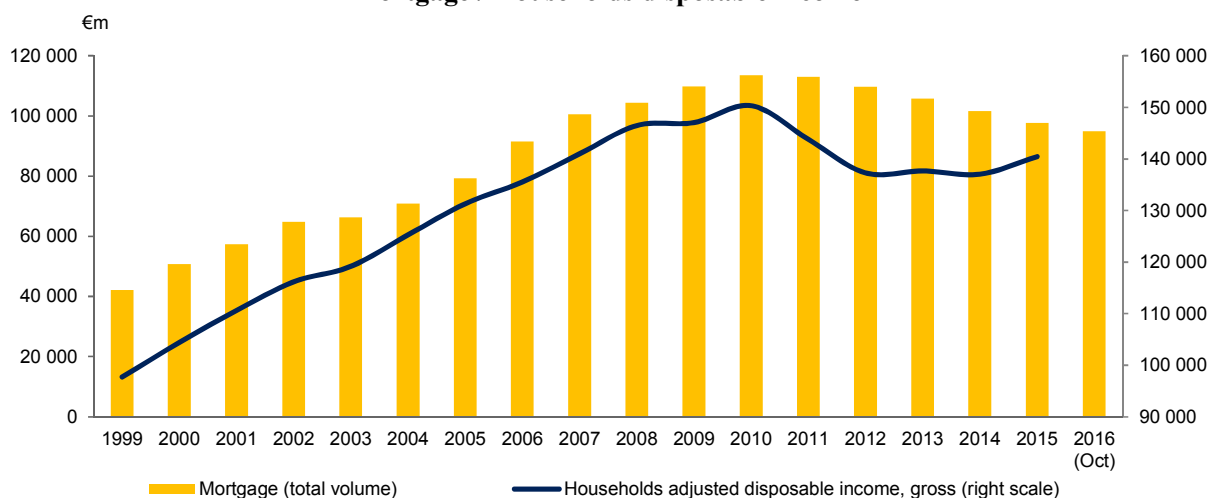
### Mortgage Rates / Mortgage Growth



Source: Bank of Portugal Statistics; Thomson Reuters.

Although still falling year-on-year, the prospects are for a recovery of the credit market, particularly in mortgage loans. A recovery that will result from a combination of several factors: i) the monetary policy measures adopted by the ECB with a direct impact on the availability of liquidity for banks and also in terms of reduction in yields of Portuguese debt, which make the credit to the real economy more appealing compared to the purchase of public debt; ii) the successive signs of the recovery of economic activity, impacting in the expected reduction of non-performing loans; iii) the fact that the banking system needs to grow in new loans, to increase operational profitability, which is conditioned by the low profitability of the existing mortgage loans stock that have excessively low spreads against Euribor; iv) the fact that the banking system has already made in previous years the most of the deleveraging process.

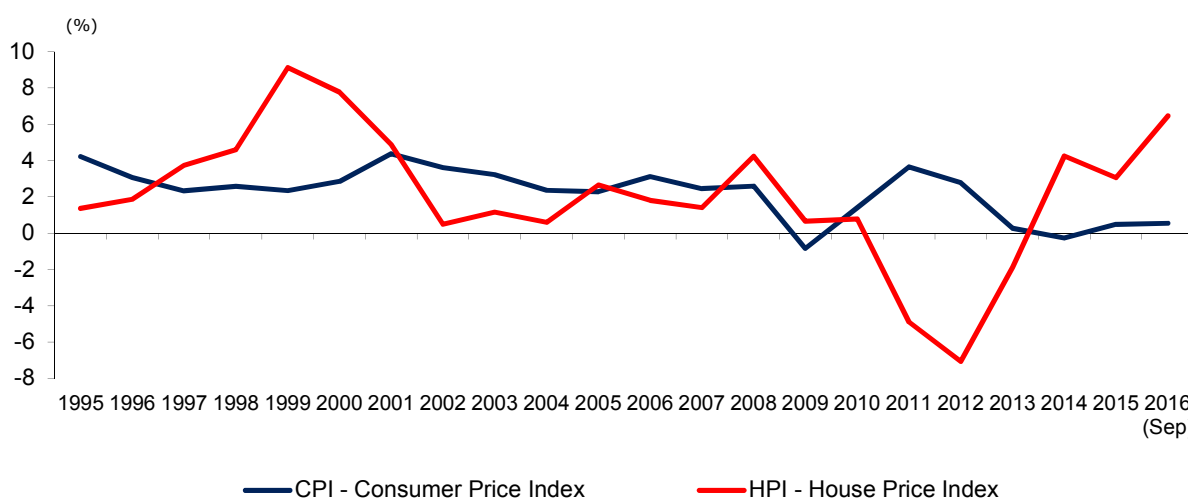
### Mortgage / Households disposable income



Source: Bank of Portugal Statistics; INE (National Statistics Institute).

Portuguese real estate asset prices rose during the period 1995 to 2001, as a consequence of the shift from a high to a low interest rate environment and to an extraordinary high level of housing demand. Still, after 2001, property prices have stabilized, with an annual average growth rate of 0.8 per cent. in the period 2002-2015, which may be a sign that the housing market has taken a pause and will resume its normal course, after the price adjustments needed to establish the balance between the offer and demand on the housing market, when combining housing stock with the consumer confidence indicator, which appear to be influencing plans to buy houses. The house prices are exhibiting a path of recovering since the end of 2013, with a growth rate of 3.1 per cent. in 2015 and with a strong acceleration in 2016 (until September) for a growth rate of 6.5 per cent, the highest since 2000 (+7.8 per cent.).

### House Price Index vs. Inflation in Portugal since 1995



Source: CPI (INE - National Statistics Institute); HPI: Confidencial Imobiliário (until 2009, after that INE HPI);

From 2010 onwards, the demand for houses has declined, as a consequence of the economic crisis and of the adoption of more stringent underwriting criteria by banks, which is causing a decrease in the Portuguese house price index growth rate since mid 2011. In fact, houses prices (INE data), decreased 4.9 per cent. in 2011, 7.1 per cent. in 2012 and 1.9 per cent. in 2013. In the same year, consumer price index (CPI) inflation was 3.7 per cent., 2.8 per cent., and 0.3 per cent, respectively. In 2014, CPI inflation recorded a negative value (-0.3 per cent) given to the lower economic activity and the significant decline in the energy prices, and just accelerated to 0.5% in 2015, but houses prices have increased 4.3 per cent in 2014 and 3.1 per cent. in 2015. In September 2016, house prices showed an annual growth rate of 6.5 per cent., when inflation was at 0.6 per cent.. Nevertheless, in 2016 (until September), houses prices were 1.0 per cent. below the 2010 historical peak, meanwhile CPI was 7.5 per cent. above the 2010 levels, reaching a new fresh high.

## **DESCRIPTION OF THE ISSUER'S RESIDENTIAL MORTGAGE BUSINESS**

### **The Residential Mortgage Business of the Issuer**

The Issuer is one of Portugal's largest residential mortgage lenders, a business it was authorised to develop long before the market was liberalised in 1991. In spite of the strong competition that followed that event, the Issuer has been able to maintain its market position and its recognition as a major player in this business.

With the aim of defending its position as a mortgage specialist, focus is given to the quality of the service provided to its customer base, along with the adoption of rigorous, ethical and transparent practices.

### **Origination**

All of the Issuer's residential mortgage loans are originated at the branch level. This may take place as a result of direct contact with borrowers, or via proposals submitted to the Issuer by real estate agents. In each case, the client will have to go to the branch to follow the standard application and approval process.

### **Credit Decision**

The Issuer has adapted product policies applied before the financial crisis that included decreasing loan-to-value ratios and maturities as well as introducing less flexible repayment schemes.

The Issuer has refocused its strategic guidelines for mortgage lending, focusing on credit decisions, delinquency loans and customer profitability.

In Portugal, most residential mortgage loans pay interest on a floating rate basis, indexed to 6 month Euribor with a spread depending on the loan-to-value ratio and the relevant clients' scoring under Basel II rules. While most banks offer fixed or capped rate alternatives, Portuguese borrowers have shown little interest in these types of products. The potential evolution of installments and the impact on delinquency are considered in the Issuer's credit decision.

In order to prevent future increases in Euribor and over indebtedness, the Issuer stresses the financial customer capacity evaluation for new loans by adding 150 basis points to the standard loan rate (ie to the Euribor plus spread applicable to the loan).

Additionally, the Issuer uses the risk-adjusted pricing, a model in credit decision which seeks to respond to market developments and the requirements of Basel II.

This model comprises client scoring, which assesses the risk level of clients from a wide range of variables, such as socio-demographic, economic and financial and relationship ones. Additionally, the Issuer is applying a consistent rise in pricing, better adjusted to client risk.

### **Underwriting**

Mortgage loans applications are submitted by customers at the local branches. At the branch of the commercial area, the information required in accordance with internal credit rules (i.e. financing application, identity documents, informative questionnaires and official documents evidencing the customer's income) is collected, checked and entered into the "Credit Scoring System". This system automatically checks whether there is any relevant information on the customer stored in internal and/or external databases and also checks the application against the main credit policies/rules (i.e. Loan-to-Value, Debt-to-Income).

The Risk Analysis Department (an independent area of the Commercial Department) issues a mandatory opinion in the second and third levels of decision.

The proposals are submitted through a workflow system that automatically validates the competent level for decision. The approval of housing loans is the responsibility of four levels of management, involving the Branch, the Regional Department and Risk Analysis Department, the Commercial Manager and the Risk Analysis Manager and the Executive Board.



The limits depend on the score and Loan to Value (LTV):

1st Level: Branch (Loan amount limit): €75,000 to €150,000 (highest to the lowest risk score) and maximum LTV is 80 per cent.

2nd Level: Regional Department and Credit Risk Department: €150,000 to €350,000 and maximum LTV is 80 per cent.

3rd Level: Commercial Manager and the Risk Analysis Manager: €350,000 to €900,000

4th Level: Executive Board: Other cases

Once a decision has been made by the relevant decision level, the customer is formally informed by mail.

### Insurance Cover

Property insurance coverage is required in respect of any property which is the subject of a mortgage loan. The existence of fire or multi-risk insurance is compulsory for an amount equal to the property reconstruction value and with an insurance company approved by the Issuer.

Life insurance is also compulsory, for an amount at least equal to the value of the loan and for all the borrowers, which, in case of death or permanent invalidity of the borrower, guarantees the payment of the outstanding capital to the Issuer.

### Security Interests

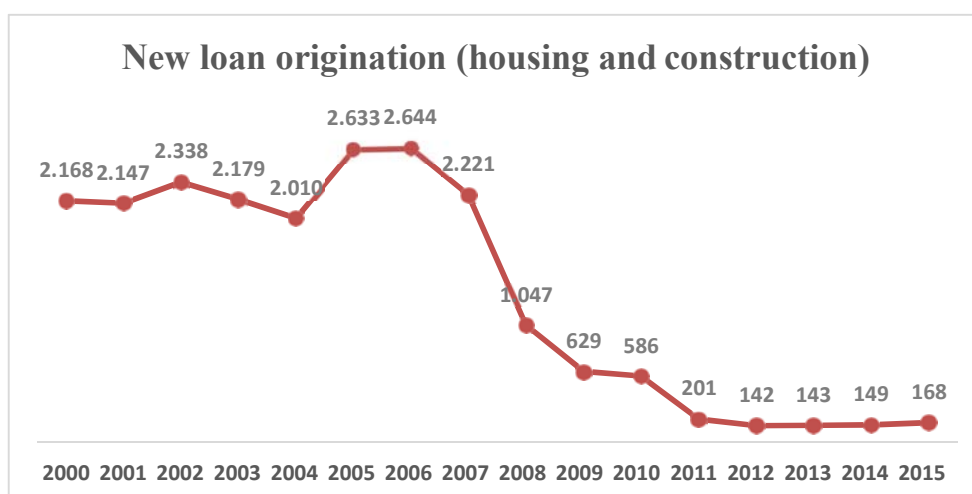
Loans are secured by first ranking mortgage over the property to be purchased. In exceptional cases, this may be replaced by a guarantee over another property or by a pledge of securities/deposits.

### Mortgage Products

Under the laws of the Portuguese Republic, the term of any mortgage contract may exceed 30 years. The Issuer's underwriting criteria include a maximum term of 40 years, however the age of the borrower on the maturity date cannot be greater than 75 years. All loans must be repaid in instalments (comprising interest and principal) and paid by direct debit (the system automatically debits the customer's current account associated with the loan), usually on a monthly basis.

The majority of residential mortgage loans pay interest on a floating rate basis, indexed to 3 or 6 month EURIBOR, plus a spread, depending on the LTV ratio and on the risk class assigned by the scoring system.

In order to mitigate the risk, the underwriting criteria for housing loans was revised, pursuant to which LTV and debt-to-income ratios are kept at a maximum of 80 per cent. and 40 per cent., respectively.



As a consequence of the slowdown in the Portuguese mortgage market, the adoption of more stringent underwriting criteria and in accordance with the Issuer's strategic guidelines to diversify the loan portfolio risk, the new loan origination (housing and construction) has been reduced from 2007 onwards.

### **Monitoring**

The Issuer proceeds to the monitoring of the credit portfolio on a monthly basis. In that process, the Issuer closely analysis the performance of a number of indicators, which include the risk ratios and a set of quality indicators, such as debt to income, the loan-to-value ratio, and the risk class. The Issuer also performs regular revisions to the scoring models, in order to guarantee their accuracy. For that purpose, a number of indicators are analysed, such as the overrides and the acceptance and rejection rates.

### **Delinquency management in the mortgage business**

For the Issuer, the residential mortgage business requires a strict and consistent management of delinquency, using multiple solutions to prevent and mitigate non-performing loans.

Early detection of delinquency situations led to the creation of the concept of client in financial distress. A customer is in financial distress when the client records a default within the Issuer, or when the client shows difficulty in paying expenses, even if the customer is not yet in default. In either circumstance, typically, the client has had a reduction of disposable income, meaning an increase in the debt-to-income ratio when compared to that observed at the time of underwriting.

For these clients, the Issuer has enhanced its information systems in order to detect customers (i) with a partial delay in paying of at least one mortgage installment; (ii) using the total overdraft limit negotiated in a two-month period; (iii) using the full credit limit in credit cards at least once in the last 6 months; (iv) with an indication of credit written-off, non-performing loans or credit renegotiation in Bank of Portugal's systems.

It also detects customers whose payments, by direct debit, are lagging behind or whose debit payments have been cleared.

New legislation relating to default situations within the context of residential loan agreements was established from 2012 onwards, which resulted in the adoption of new concepts for the characterisation of customers who are in economic difficulty and new measures aimed at preventing default and promoting extrajudicial renegotiation of loans, applicable to credit institutions.

Like other Banks, the Issuer has implemented the Pre-arrears Action Plan (PARI), with new rules, procedures and measures which allow for: early detections of signs of delinquency risk; implementing systems to identify default risk; control of borrowers who report financial difficulties; the adoption of measures to prevent arrears; the evaluation of evidence of default risk; repayment solutions proposals, whenever the risk of failure is caused by temporary and specifically defined circumstances; evaluation of the financial capacity of the client; contract restructuring or credit agreements consolidation proposals, in cases where the risk of default is assumed to be permanent.

The Issuer has also created an extrajudicial settlement procedure for borrowers in default situation (PERSI), with several measures intended to automatically detect customers in default and propose timely contractual changes and restructurings, including: the notification of customer arrears and amounts due, to the borrower and guarantors; registration of the reasons for non-compliance and assessment of the financial capacity of the client; reporting clients about the evaluation of failure; contractual remedies proposals, adequate to each borrower's financial situation.

### **Arrears management in Pre-Litigation**

The arrears management in the first 60 (sixty) days is performed at branch level. At the first missed payment, letters are sent to debtors and guarantors requesting repayment of overdue amounts. The commercial network is informed of the arrears and is encouraged to contact customers for the respective regularization.

Contacts are also made via Contact Centre at the 10th, 30th and 45th day of arrears. Scripts are different, becoming more assertive as the time in arrears increases.

All phone contacts are recorded and registered in a dedicated credit recovery software (SIRA), and if necessary, meetings are scheduled between the borrowers / guarantors and the respective branches.

The Issuer also developed software and proceedings for dealing with the customers that are eligible for PERSI-Extrajudicial Procedure Default Situations Regularization (Decree-Law No. 227/2012, 25 October) namely whenever the Client alerts about the risk of default, transmit facts indicating the deterioration of its financial capacity or explicitly request the inclusion in PERSI. For the remaining customers PERSI is triggered after 31 (thirty one) days in arrears.

After 60 (sixty) days in arrears the process is monitored by the Credit Recovery Division. Several letters are sent to the borrowers and guarantors, as well as outbound calls to the borrowers and guarantors, notifying them on the delinquent status of the loan and advising about a new channel for payments (via net banking and ATM's) in addition to the standard direct debit procedure. In the following 30 (thirty) days, every legal steps provided for in PERSI, including contacts, letters and negotiations for the resolution of the situation, are made. The solutions go through:

- Regularization plans for credit recovery;
- Extension of the contractual maturity;
- Deferring part of principal outstanding for the final installment;
- Contractual changes with grace periods of principal;
- Contractual changes with grace periods of principal and interest;
- Customer's debt restructuring through a new contract with new warranties and / or guarantors;
- Credit reimbursement by selling the collateral to a third party;
- Taking back the property (*deed in lieu*).

After 60 (sixty) days in arrears the Issuer uses the services of its internal individuals' recovery unit and extrajudicial recovery specialized companies. These companies are paid only if credit is recovered. Communication with the companies is made daily in both directions, based on electronic means through a secure server (FTPs - File Transfer Protocol Secure) using interface files with the data for the recovering process. The process will stay for 60 plus 60 days with two different companies.

After 180 (one hundred and eighty) days in arrears, if it is not possible to reach an agreement with the customer, then the legal process is initiated. Due to the current economic situation and the difficulties of families this period may be extended, if necessary.

#### **Arrears Management - litigation**

The judicial recovery process is performed by internal lawyers for files with greater complexity / exposure; for the remaining processes the Issuer engages law firms. The exchange of information with the law firms is performed daily through a secure server (FTPs - File Transfer Protocol Secure) using interface files with the data and scanned documents. Even at this stage, a settlement out of court is still possible.

#### **Covered Bond Programme - main characteristics**

The table below shows the main characteristics of the Covered Bond Programme, as of 31 December 2016 (the full version of the quarterly Investor Report as well as any future quarterly updates thereto are available for consultation at [https://www.montepio.pt/SitePublico/en\\_GB/institutional/about/caixa-economica-montepio-geral/investor-relations/funding-programmes.page?altcode=CEMGIREN05](https://www.montepio.pt/SitePublico/en_GB/institutional/about/caixa-economica-montepio-geral/investor-relations/funding-programmes.page?altcode=CEMGIREN05)).

Covered Bonds Outstanding	Issue Date	Coupon	Maturity Date	Remaining Term	EUR Nominal Amount
				1.31	2,000,000,000
Series 4 (ISIN PTCMGXOE0015)	21-05-2013	Floating Rate	21-05-2017	0.39	500,000,000
Series 5 (ISIN PTCMGROE0021)	09-12-2015	Floating Rate	09-12-2020	3.94	500,000,000
Series 6 (ISIN PTCMGEOE0034)	09-11-2016	Floating Rate	09-11-2023	6.86	300,000,000
Series 7 (ISIN PTCMGLOE0043)	16-12-2016	Floating Rate	16-12-2022	5.96	500,000,000
Series 8 (ISIN PTCMGFOE0033)	16-12-2016	Floating Rate	16-12-2026	9.96	500,000,000

### Mortgage Credit Pool

#### Main Characteristics

Number of Loans	58,036
Aggregate Original Principal Balance (EUR)	4,162,249,519.71
Aggregate Current Principal Balance (EUR)	2,724,339,909.13
Average Original Principal Balance per loan (EUR)	71,718.41
Average Current Principal Balance per loan (EUR)	46,942.24
Current principal balance of the 5 largest borrowers (EUR)	4,920,008.89
Weight of the 5 largest borrowers (current principal balance) %	0.18%
Current principal balance of the 10 largest borrowers (EUR)	7,416,032.93
Weight of the 10 largest borrowers (current principal balance) %	0.27%
Weighted Average Seasoning (months)	128.10
Weighted Average Remaining Term (months)	260.84
Weighted Average Current Unindexed LTV5 (%)	53.23%
Weighted Average Current Indexed LTV5 (%)	n.a.
Weighted Average Interest Rate (%)	1.219%
Weighted Average Spread (%)	1.333%
Max Maturity Date	04-02-2066

Geographical Distribution	Number of Loans	% Total Loans	Loans (EUR)	% Total EUR
<b>Portugal</b>	<b>58,036</b>	<b>100.00%</b>	<b>2,724,339,909</b>	<b>100.00%</b>
North	17,755	30.59%	753,921,512	27.67%
Center	9,374	16.15%	424,083,426	15.57%
Lisbon	20,195	34.80%	1,017,430,074	37.35%
Alentejo	2,791	4.81%	134,181,868	4.93%
Algarve	3,459	5.96%	161,837,734	5.94%

Madeira	1,647	2.84%	88,370,940	3.24%
Azores	2,815	4.85%	144,514,354	5.30%

<b>Delinquencies</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
> 30 to 60 days	181	0.31%	10,054,061	0.37%
> 60 to 90 days	0	0.00%	0	0.00%
> 90 days	0	0.00%	0	0.00%

<b>Subsidized Loans</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
Yes	10,106	17.41%	296,338,379	10.88%
No	47,930	82.59%	2,428,001,530	89.12%

<b>Insured Property</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
Yes	58,036	100.00%	2,724,339,909	100.00%
No	0	0.00%	0	0.00%

<b>Interest Rate Type</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
Fixed	3,924	6.76%	157,008,832	5.76%
Floating	53,801	92.70%	2,567,331,077	94.24%

<b>Repayment Type</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
Annuity / French	57,283	98.70%	2,674,240,575	98.16%
Linear	0	0.00%	0	0.00%
Increasing instalments	462	0.80%	34,542,856	1.27%
Bullet	0	0.00%	0	0.00%
Interest-only	0	0.00%	0	0.00%
Other	291	0.50%	15,556,478	0.57%

<b>Loan Purpose</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Loans (EUR)</b>	<b>% Total EUR</b>
Owner-occupied	52,254	90.04%	2,456,922,042	90.18%
Second Home	3,905	6.73%	193,395,325	7.10%
Buy to Let	771	1.33%	33,278,346	1.22%
Other	1,106	1.91%	40,744,196	1.50%

Property Type	Number of Loans	% Total Loans	Loans (EUR)	% Total EUR
<b>Residential</b>	<b>58,036</b>	<b>100.00%</b>	<b>2,724,339,909</b>	<b>100.00%</b>
Flat	46,641	80.37%	2,032,890,173	74.62%
House	11,368	19.59%	689,772,611	25.32%
Other	27	0.05%	1,677,125	0.06%
<b>Commercial</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	<b>0.00%</b>

### **USE OF PROCEEDS**

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

## THE COVERED BONDS LAW

The following is a brief overview of Portuguese legal provisions applicable to the issuance of Covered Bonds. Prospective investors should seek their own independent legal advice.

### FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulatory Notices**"), which comprises both regulatory notices ("*Avisos*") and instructions. The Bank of Portugal Regulations address matters such as the segregation of the assets included in the cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties, namely:

- Regulatory Notice ("*Aviso*") no. 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law;
- Regulatory Notice ("*Aviso*") no. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law;
- Regulatory Notice ("*Aviso*") no. 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law;
- Instruction ("*Instrução*") no.13/2006, of the Bank of Portugal, contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds.

### ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credits guaranteed by mortgages over property and having own funds amounting to no less than €7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**" and together with the Credit Institutions, the "**Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting and acquiring (i) credits guaranteed by mortgages, (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU member state. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

If covered bonds are issued by a Mortgage Credit Institution backed by credits acquired from a third party originator, the cover assets must be transferred to the Mortgage Credit Institution and, if such Mortgage Credit Institution is wholly-owned by such originator, the assets and liabilities relating to the relevant issue of covered bonds and the related cover pool will be consolidated with such originator. However, it is also



possible for a Mortgage Credit Institution to have multiple owners, in which case the issues of covered bonds and the allocated cover pool may or may not be consolidated with the originator of the relevant credits.

An Institution must manage its cover pool as well as any properties that it may acquire as a result of the enforcement of delinquent mortgage credits. Institutions may also undertake certain activities necessary to obtain additional liquidity.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form a separate estate, i.e. an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law thus establishes a special regime which prevails over general Portuguese insolvency rules.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

## **COVER ASSETS**

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

### *Mortgage Credits Eligibility Criteria*

- (a) pecuniary receivables not yet matured, which are neither subject to conditions, nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;
- (b) mortgage credits secured by junior mortgages provided all mortgage credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;
- (c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in each case together with a mortgage counter guarantee evidencing (a) or (b) above.

### *"Other Assets" Eligibility Criteria:*

The following assets may also be included in the Cover Pool as Other Assets:

- (a) deposits with the Bank of Portugal, in cash or in securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the EU member states whose currency is the euro);
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to «A-» or equivalent; and
- (c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulatory Notices.

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

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

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which

have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal without first obtaining (in each case for so long as the Covered Bonds are rated by such rating agency) from Fitch and/or Moody's a confirmation that any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, foreign exchange rate and liquidity risks. The Bank of Portugal Regulatory Notices contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide to, include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts and to have them identified through a code in the issue documents. The key to such code is deposited with the Bank of Portugal.

#### **VALUATION AND LOAN-TO-VALUE CRITERIA**

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulatory Notice 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value cannot exceed the value of the mortgages and is 80 per cent. for residential mortgages and 60 per cent. for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool may not be higher than the commercial value of such property, determined in accordance with a prudent criteria and taking into consideration: (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of each such property.

Pursuant to the requirements of Regulatory Notice 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser, able to complete such purchase, (please refer to page 93 of this Base Prospectus) on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii) the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulatory Notice 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior the coming into force of the aforesaid Regulatory Notice.

#### **ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS**

The Covered Bonds Law and the Bank of Portugal Regulatory Notices establish the following asset and liabilities matching requirements:

- The global nominal value of the outstanding mortgage covered bonds cannot exceed 95 per cent. of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool (i.e., a mandatory overcollateralisation of 5.2632 per cent.);
- The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds;

- The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any point in time, the amount of interest to be collected from the mortgage credits and other assets comprised in the cover pool backing the relevant issue of covered bonds – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds;
- The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool assigned to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- (i) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- (ii) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and
- (iii) in relation to any other assets:
  - (a) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
  - (b) securities eligible for Eurosystem credit transactions shall be accounted for a value which is obtained in accordance with margin calculation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the foreign exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of "A-".

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than the euro, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, with or without substitution of those already allocated to the Covered Bonds; and/or (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets within the limits of the Covered Bonds Law.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006, of the Bank of Portugal, contains rules to be followed in respect of notices to the Bank

of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and redemptions occurred.

#### **COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION**

The Executive Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues ("obrigações hipotecárias") or ("obrigações sobre o sector público") – must be appointed by the Executive Board of Directors of the Institution in order to represent the interest of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

#### **SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS**

##### *Asset segregation*

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution and will be identified under a codified form. The key to such code will be deposited with the Bank of Portugal. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to article 4.5 of the Covered Bonds, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório especial*"), in particular in case of the winding-up and/or the dissolution of the Institution.

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

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulatory Notice 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent

management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

#### *Preferential status for covered bonds holders*

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a **special creditor privilege** ("*privilégio creditório especial*") over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any other real estate creditor's privilege. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege ("*privilégio creditório especial*") over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

The remuneration costs and disbursements related with the tasks of the Common Representative will also benefit from the special creditor privilege ("*privilégio creditório especial*") to the extent that the same are in line with the terms and conditions of the relevant issue.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of covered bonds may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

#### **RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION**

Covered bonds issued in accordance with the Covered Bonds Law are in compliance with the requirements of paragraph 4 of article 52 of the UCITS Directive as well as with subparagraphs (a) to (f) of paragraph 1 of Article 129 of Regulation (EU) No.575/2013 of the European Parliament and of the Council of 26 June 2013, the Capital Requirements Directive ("**CRR**"). The risk-weighting applicable to covered bonds is also governed by Article 129 of the CRR.

## TAXATION

### Portugal

The following is a general description of certain Portuguese tax consequences of the acquisition and ownership of Covered Bonds. It does not purport to be an exhaustive description of all tax considerations that may be relevant to decide about the purchase of Covered Bonds. Notably, the following general discussion does not consider any specific facts or circumstances that may apply to a particular purchaser.

This overview is based on the laws of Portugal currently in full force and effect and as applied on the date of this Base Prospectus, thus being subject to variation, possibly with retroactive or retrospective effect.

Prospective purchasers of Covered Bonds are advised to consult their own tax advisers as to the tax consequences resulting from the purchase, ownership and disposition of Covered Bonds, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or are deemed to be, residents.

The economic advantages deriving from interests, amortization or reimbursement premiums and other types of remuneration arising from Covered Bonds issued by private entities are qualified as investment income for Portuguese tax purposes.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

#### General tax regime on debt securities

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to individual income tax. If the payment of interest or other investment income is made available to Portuguese resident individuals, withholding tax applies at a rate of 28 per cent., which is the final tax on that income unless the individual elects to include such income in his taxable income (*englobamento*), subject to tax at the current progressive rates of up to 48 per cent. plus an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000. Moreover, if the income aggregation option is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0.88 per cent. for taxable income exceeding €20,261 up to €40,522; (ii) 2.75 per cent. for taxable income exceeding €40,522 up to €80,640; and 3.21 per cent. for taxable income above €80,640.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more resident accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

In this case, the tax withheld is deemed a payment on account of the final tax due. Capital gains obtained by Portuguese resident individuals on the transfer of Covered Bonds are taxed at a special tax rate of 28 per cent. levied on the positive difference between the capital gains and capital losses of each year, which is the final tax on that income unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. plus an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000. Moreover, if the income aggregation option is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0.88 per cent. for taxable income exceeding €20,261 up to €40,522; (ii) 2.75 per cent. for taxable income exceeding €40,522 up to €80,640; and 3.21 per cent. for taxable income above €80,640.

Interest and other investment income derived from Covered Bonds and capital gains obtained with the transfer of Covered Bonds by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to Corporate Income Tax at a rate of (i) 21 per cent. (16.8 per cent. in the Autonomous Region of Azores) or (ii) if the taxpayer is a small or medium enterprise as

established in Decree-Law no. 372/2007, of 6 November 2007, 17 per cent. (13.6 per cent. in the Autonomous Region of Azores) for taxable profits up to €15,000 and 21 per cent. (16.8 per cent. in the Autonomous Region of Azores) on profits in excess thereof, to which may be added a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income. Corporate taxpayers with a taxable income of more than € 1,500,000 are also subject to State surcharge ("*derrama estadual*") of 3 per cent. on the part of their taxable profits that exceeds € 1,500,000 up to € 7,500,000, of 5 per cent., on the part of the taxable profits that exceeds € 7,500,000 and 7 per cent. on the part of the taxable profits that exceeds €35,000,000.

Withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due (except where the beneficiary is either a financial institution, a collective investment undertakings or an exempt entity as specified by current Portuguese tax law).

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more resident accountholders or non resident accountholders with a permanent establishment in Portugal acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Without prejudice to the special debt securities tax regime as described below, the general tax regime on debt securities applicable to non resident entities is the following:

Interest and other types of investment income obtained by non resident individuals is subject to withholding tax at a rate of 28 per cent..

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more non resident accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. also applies in case of investment income payments to individuals resident in a country, territory or region subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004, of 13 February 2004, as amended by Ministerial order ("*Portaria*") no. 292/2011, of 8 November 2011 and by Ministerial order ("*Portaria*") no. 345-A/2016, of 30 December 2016 ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*").

Interest and other types of investment income obtained by a legal person non resident in Portugal without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent., which is the final tax on that income.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more non resident accountholders without a permanent establishment in Portugal acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. also applies in case of investment income payments to legal persons resident in a country, territory or region subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004, of 13 February 2004, as amended by Ministerial order ("*Portaria*") no. 292/2011, of 8 November 2011, and by Ministerial order ("*Portaria*") no. 345-A/2016, of 30 December 2016 ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*").

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Prospectus, the withholding tax rate may be reduced to 15, 12, 10 or 5 per cent., depending on the

applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes may be available for viewing and downloading at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

Capital gains obtained on the transfer of Covered Bonds by non resident individuals are exempt from Portuguese capital gains taxation unless the beneficial owner is resident in a country, territory or region subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004 of 13 February 2004, as amended by Ministerial order ("*Portaria*") no. 292/2011, of 8 November 2011, and by Ministerial order ("*Portaria*") no. 345-A/2016, of 30 December 2016 ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"). If the exemption does not apply, the gains will be subject to personal income tax at a rate of 28 per cent.. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

Capital gains obtained on the disposal of Covered Bonds by a legal person non resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the beneficial owner is more than 25 per cent. directly or indirectly held by Portuguese resident entities (the referred 25% threshold will not be applicable when the following cumulative conditions are met by the seller: (i) the entity at issue has its residence in the European Union or in the European Economic Area State or in any country with which Portugal has a double tax treaty in force that foresees information exchange; (ii) such entity is subject and not exempt from IRC, or a tax of similar nature with a rate not lower than 60 per cent of the Portuguese IRC rate; (iii) it holds at least 10% of the share capital or voting rights for at least 1 year uninterruptly; and (iv) it is not intervenient in an artificial arrangement or a series of artificiales arrangements that have been put into place for the main purpose, or one of the main purposes, of obtaining a tax advantage) or if the beneficial owner is resident in a country, territory or region subject to a clearly more favourable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004 of 13 February 2004, as amended by Ministerial order ("*Portaria*") no. 292/2011, of 8 November 2011, and by Ministerial order ("*Portaria*") no. 345-A/2016, of 30 December 2016 ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"). If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

### **Special Debt securities tax regime**

Pursuant to Decree-law 193/2005, of 7 November 2005, as amended from time to time, last amended by Law no. 42/2016, of 28 December 2016 ("**Decree-law 193/2005**"), investment income paid on, as well as capital gains derived from a sale or other disposition of the Covered Bonds, to non-Portuguese resident beneficial owners will be exempt from Portuguese income tax provided the debt securities are integrated in (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above provided that, in this last case, the Portuguese Government authorises the application of the Decree-Law 193/2005, and the beneficiaries are:

- (a) central banks or governmental agencies; or
- (b) international bodies recognised by the Portuguese State; or
- (c) entities resident in countries or jurisdictions with whom Portugal has a double tax treaty in force or a tax information exchange agreement in force; or



- (d) other entities without headquarters, effective management or a permanent establishment in the Portuguese territory to which the relevant income is attributable and which are not domiciled in a blacklisted jurisdiction as set out in the Ministerial Order (*Portaria*) no. 150/2004, of 13 February (*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*), as amended by Ministerial Order (*Portaria*) no. 292/2011, 8 November 2011, and by Ministerial order ("Portaria") no. 345-A/2016, of 30 December 2016 (hereinafter "**Ministerial Order (*Portaria*) no. 150/2004**").

For purposes of application at source of this tax exemption regime, Decree-Law 193/2005 requires completion of certain procedures aimed at verifying the non-resident status of the Noteholder and the provision of information to that effect. Accordingly, to benefit from this tax exemption regime, a Noteholder is required to hold the Notes through an account with one of the following entities:

- (a) a direct registered entity, which is the entity with which the debt securities accounts that are integrated in the centralised system are opened;
- (b) an indirect registered entity, which, although not assuming the role of the "direct registered entities", is a client of the latter; or
- (c) an international clearing system, which is an entity that proceeds, in the international market, to clear, settle or transfer securities which are integrated in centralised systems or in their own registration systems.

Direct registered entities are required, for the purposes of Decree-Law 193/2005, to register the Noteholders in one of two accounts: (i) an exempt account or (ii) a non-exempt account.

#### **(a) Domestic Clearing Covered Bonds**

Registration of the Covered Bonds in the exempt account is crucial for the tax exemption to apply upfront and requires evidence of the non-resident status of the beneficiary, to be provided by the Noteholder to the direct registered entity prior to the relevant date for payment of interest or other investment income (*rendimentos de capitais*) and to the transfer of Covered Bonds, as follows:

- (i) if the beneficiary is a central bank, an international body recognised as such by the Portuguese State, or a public law entity and respective agencies, a declaration issued by the beneficial owner of the Notes itself duly signed and authenticated, or proof of non-residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;
- (ii) if the beneficiary is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty, certification shall be made by means of the following: (A) its tax identification official document; or (B) a certificate issued by the entity responsible for such supervision or registration, or by tax authorities, confirming the legal existence of the beneficial owner of the Notes and its domicile; or (C) proof of non-residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;
- (iii) If a beneficial owner of Covered Bonds is either an investment fund or a collective investment scheme domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, domicile and law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iii) below, so long as the beneficial owners of Covered Bonds provide the confirmation referred to in paragraph (iii) below.

- (iv) in any other case, information provided in accordance with the following rules: confirmation must be made by the relevant beneficial owner of Covered Bonds by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities, (B) a document issued by the relevant Portuguese Consulate certifying residence abroad, or (C) a document specifically issued by an official entity taking part of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country; for these purposes, an identification document such as a passport or an identity card or document by means of which it is indirectly possible to presume the relevant tax residence (such as a work or permanent residency permit) are not acceptable. The beneficiary must provide an original or a certified copy of such documents and, as a rule, if such documents do not refer to a specific year and do not expire, they must have been issued within the three years prior to the relevant payment or maturity dates or, if issued after the relevant payment or maturity dates, within the following three months. The Beneficiary must inform the direct registering entity immediately of any change in the requirement conditions that may eliminate the tax exemption.

**(b) Internationally Cleared Covered Bonds**

Pursuant to the requirements set forth in the tax regime, if the Notes are registered in an account held by an international clearing system operated by a managing entity, the latter shall transmit, on each interest payment date and each relevant redemption date, to the direct register entity or to its representative, and with respect to all accounts under its management, the identification and quantity of securities, as well as the amount of income, and, when applicable, the amount of tax withheld, segregated by the following categories of beneficiaries:

- (a) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable and which are non-exempt and subject to withholding;
- (b) entities which have residence in country, territory or region with a more favourable tax regime, included in the Portuguese "blacklist" (countries and territories listed in Ministerial Order (*Portaria*) no. 150/2004) and which are non-exempt and subject to withholding;
- (c) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable, and which are exempt or not subject to withholding;
- (d) other entities which do not have residence, headquarters, effective management or permanent establishment to which the income generated by the securities would be imputable.

On each interest payment date and each relevant redemption date, the following information with respect to the beneficiaries that fall within the categories mentioned in paragraphs (a), (b) and (c) above, should also be transmitted:

- (a) name and address;
- (b) tax identification number (if applicable);
- (c) identification and quantity of the securities held; and
- (d) amount of income generated by the securities.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree Law 193/2005, as amended from time to time, last amended by Law no. 42/2016, of 28 December 2016. The refund claim is to be submitted to the direct register entity of the Notes within 6 (six) months from the date the withholding took place. Following the amendments to Decree-Law 193/2005, introduced by Law no. 83/2013, of 9 December, a new special tax form for these purposes was approved by Order (*Despacho*) no. 2937/2014, published in the Portuguese official gazette, second series, no. 37, of 21 February 2014 issued by the Secretary of State of Tax Affairs (*Secretário de Estado dos Assuntos Fiscais*).

The refund of withholding tax after the above six-month period is to be claimed from the Portuguese tax

authorities within two years, starting from the term of the year in which the withholding took place.

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

Under EU Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest (or income deemed equivalent for these purposes) paid by a person within its jurisdiction to an individual resident in that other EU Member State. In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive. Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

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

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

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

### **Foreign Account Tax Compliance Act**

FATCA imposes a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to any non-U.S. financial institution (a foreign financial institution, or FFI (as defined by FATCA)) that does not become a Participating FFI by entering into an agreement with the U.S. Internal Revenue Service (IRS) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA. The Issuer is classified as a FFI.

The new withholding regime has been phased in beginning 1 July 2014 for payments from sources within

the United States and will apply to foreign passthru payments (a term not yet defined) no earlier than 1 January 2017. This withholding applies to payments in respect of any Covered Bonds that are issued on or after the "grandfathering date", which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date. If Covered Bonds are issued before the grandfathering date, and additional Covered Bonds of the same series are issued on or after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an IGA). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a Reporting FI not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being FATCA Withholding) from payments it makes. The Model 2 IGA leaves *open* the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

It is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer and any Paying Agent, given that each of the entities in the payment chain beginning with the Issuer and ending with the CSD is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds.

Portugal has implemented, through Law 82-B/2014 of 31 December 2014 and Decree Law 64/2016, of 11 of October, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "Financial Reporting Regime") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese tax authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America.

In addition, Portugal has signed the Intergovernmental Agreement with the US on 6 August 2015. The Intergovernmental Agreement was ratified by Portugal on 5 August 2016 and, pursuant to Notice (Aviso) no. 101/2016, entered into force on 10 August 2016. This is named a Model 1 IGA.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## **SUBSCRIPTION AND SALE AND SECONDARY MARKET ARRANGEMENTS**

The Dealers have, in the Programme Agreement, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

The Covered Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S.

Terms used in this paragraph have the meanings given to them by Regulation S. In addition, the Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Law no. 25 of 1948, as amended, the "FIEL"). Accordingly, each of the Dealers 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**

Each Dealer has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything

done by it in relation to such Covered Bonds in, from or otherwise involving the United Kingdom.

### Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to professional investors ("operatori qualificati") as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**"), as amended from time to time, and Article 34-ter of the Italian Securities Exchange Commission ("**CONSOB**") Regulation No. 11971 of 14 May 1999, as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time.

Any such offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended from time to time (the "**Banking Act**");
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in accordance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy.

### Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each 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 any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in

that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC, as amended, and includes any relevant implementing measure in the Relevant Member State.

## **Portugal**

In relation to the Covered Bonds, each Dealer has represented and agreed 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, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; (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 statistic 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, each 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 Dealers following a change in a relevant law, regulation or directive.

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant 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 therefor.

None of the Issuer and the Dealers represents that the Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

**Secondary Market Arrangements**

The Issuer may enter into agreements with Dealers or other persons in relation to a Tranche or Series of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.



## GENERAL INFORMATION

### Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 26 June 2008 and 23 March 2016, in accordance with the provisions of the Covered Bonds Law. The update of the Programme was duly authorised by the resolution of the Board of Directors of the Issuer dated 11 January 2017.

### Listing

Application has been made to list the Covered Bonds on the Irish Stock Exchange and to admit the Covered Bonds to trading on the Irish Stock Exchange's regulated market.

### Clearing Systems

The Covered Bonds have been accepted for clearance at **Interbolsa**, through the clearing systems to which it has adhered, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Interbolsa will be specified in the relevant Final Terms.

### Conditions for Determining Price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

### Significant or Material Change

Save as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Issuer since 30 September 2016 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2015.

### Litigation

The Issuer is not involved in any legal, governmental or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date on which this Base Prospectus was most recently supplemented which may have or have had a significant negative effect on the Issuer's financial position or profitability thereof.

### Accounts

The auditors of the Issuer are KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11.º, 1069-006 Lisboa, who have audited the Issuer's accounts in accordance with Technical Standards and Review/Audit Guidelines issued by the "Ordem dos Revisores Oficiais de Contas" for each of the financial years ended on 31 December 2014 and 31 December 2015. The auditor's reports are incorporated by reference in this Base Prospectus.

### Documents Available

For the duration of the Programme, hard copies of the following documents will, when published, be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative and the Paying Agents for the time being:

- (a) the constitutional documents (including the by-laws) of the Issuer;
- (b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015;
- (c) the unaudited consolidated results of the Issuer for the first half of 2016 and the unaudited consolidated results of the Issuer for the third quarter of 2016;

- (d) the Programme Agreement dated 27 April 2017, as amended, and the Agency and Payments Procedures dated 27 April 2017, as amended;
- (e) the Common Representative Appointment Agreement dated 27 April 2017;
- (f) this Base Prospectus;
- (g) any future prospectuses, offering circulars, information memoranda and supplements including Final Terms (save that Final Terms relating to Covered Bonds which are neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Covered Bonds and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (h) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Electronic copy of this Base Prospectus**

Electronic copies of this Base Prospectus (and any supplements thereto) are available from the official website of the Issuer ([www.montepio.pt](http://www.montepio.pt)) and the official website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

### **Language of the Base Prospectus**

The language of the Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

### **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds, except if required by law, in which case such information will be disclosed at the Issuer's website.

### **Stabilising Manager**

In connection with the issue of any Tranche (as defined in General Description of the Programme), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or perform transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 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**

Certain Series of Covered Bonds to be issued under this Base Prospectus may be rated or unrated. Where an issue of Covered Bonds is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council, the "CRA Regulation") will be disclosed in the Final Terms. In

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

**Data obtained through third party sources**

Where information is stated in this Base Prospectus to have been sourced from a third party, the Issuer confirms that this information has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The statements relating to market positions of the Issuer are based on calculations made by the Issuer using data produced by itself and/or obtained from other entities and which are contained or referred to in the Annual Report of the Issuer for 2014 and 2015 (available at [www.cmvm.pt](http://www.cmvm.pt) and [www.montepio.pt](http://www.montepio.pt)).

## DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

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

**"Additional Security"** means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

**"Affiliate Member of Interbolsa"** means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear S.A./N.V. ("Euroclear Bank") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") for the purpose of holding such accounts with Interbolsa on behalf of Euroclear Bank and Clearstream, Luxembourg.

**"Agent"** means Caixa Económica Montepio Geral, with head office at Rua Áurea, 219-241, 1100-062 Lisbon.

**"Agency and Payments Procedures"** means the set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time) dated 18 November 2008 and made and agreed by Caixa Económica Montepio Geral (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

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

**"Arranger"** means The Royal Bank of Scotland plc (trading as NatWest Markets) and any other entity appointed as an arranger for the Programme and references in this Agreement to the Arranger shall be references to the relevant Arranger.

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

**"Auditor"** means KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11º, 1069-006 Lisboa.

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

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

**"Base Prospectus"** means this base prospectus prepared in connection with the Programme and dated 20 October 2008, as supplemented on 9 July 2009, on 13 May 2010, on 26 May 2010, on 13 October 2010, on 4 November 2010, on 28 September 2011, on 27 September 2012, on 21 December 2012, on 10 May 2013, on 15 October 2015, on 14 July 2016, on 3 November 2016 and on 15 December 2016, prepared in connection with the Programme.

**"Business Day"** means a day which is both: (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

**"Capital Requirements Directive"** comprises Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

**"CHF"**, **"Swiss francs"** means Swiss francs, the lawful currency of Switzerland.

**"Clearing Systems"** means clearing systems through which Interbolsa ensures the clearing according to its regulations and procedures, and, each, a **"Clearing System"**.

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

**"Common Representative"** means **Citicorp Trustee Company Limited** acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement. or any successor common representative appointed by a Meeting of the holders of Covered Bonds.

**"Common Representative Appointment Agreement"** means the agreement dated 18 November 2008 entered into between the Issuer and the Common Representative and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative.

**"Condition"** means a reference to a particular numbered condition set out in the "Terms and Conditions of the Covered Bonds".

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

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

**"Cover Pool Monitor"** means KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11º, 1069-006 Lisboa.

**"Cover Pool Monitor Agreement"** means the agreement dated 18 November 2008 entered into between the Issuer and the Cover Pool Monitor, as amended.

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

**"Covered Bonds Law"** means the Portuguese legal framework applicable to the issuance of covered bonds,

enacted by Decree-law no. 59/2006, of 20 March 2006, as amended.

**"CRA Regulation"** means Regulation (EC) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council.

**"Credit Institutions General Regime"** or **"RGICSF"** means Decree-law no. 298/92, of 31 December, as amended from time to time.

**"CSD"** means a central securities 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/365"** or **"Actual/Actual"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if **"Actual/365 (Fixed)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if **"Actual/365 (Sterling)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if **"Actual/360"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if **"30E/360"** or **"Eurobond Basis"** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

**"DBRS"** means DBRS Ratings Limited.

**"Dealers"** means each of Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt am Main, J.P. Morgan Securities plc, Landesbank Baden-Württemberg, Merrill Lynch International, Natixis, The Royal Bank of Scotland plc (trading as NatWest Markets), Société Générale and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement and excludes any entity whose appointment has been terminated pursuant to clause 10 of the Programme Agreement.

**"Default of Payment Event"** means, in respect a Series of Covered Bonds, if such Series has not been repaid in full on its Maturity Date or on the following two Business Days, or if interest due under that

Series has not been paid on any Interest Payment Date or on the following five Business Days.

**"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, 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).

**"ECB"** means the European Central Bank. **"EEA"** means the European Economic Area. **"EU"** means the European Union.

**"Euro"**, **"€"** or **"euro"** means the lawful currency of member states of the European Union that adopt the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

**"Euroclear"** means Euroclear Bank S.A./N.V.

**"Euronext Lisbon"** means the regulated market of Euronext Lisbon, the official quotation market ("*Mercado de Cotações Oficiais*") in Portugal.

**"Eurosysteem"** means the central banking system for the Euro.

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

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

**"Final Terms"** means, in relation to each Tranche, the applicable final terms attached to, or endorsed on, such Covered Bonds.

**"Fitch"** means Fitch Ratings Limited.

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

**"GBP"**, **"£"** or **"pounds sterling"** means pounds sterling, the lawful currency of the United Kingdom.

**"Group"** means the Issuer and its subsidiaries.

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

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

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

**"Instruction 13/2006"** means the regulatory instruction ("*Instrução*") no. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**"Interbolsa"** means **Interbolsa** - Sociedade Gestora de Sistemas de Liquidação e de Sistemas

Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários.

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

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

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

**"ISDA"** means the International Swaps and Derivatives Association Inc.

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

**"Issuer"** means Caixa Económica Montepio Geral.

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

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

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

**"JPY", "Japanese yen"** means Japanese yen, the lawful currency of Japan.

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

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

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

**"Meeting"** means a meeting of holders of Covered Bonds (whether originally convened or resumed following an adjournment) and **"Meetings"** shall be construed accordingly.

**"Montepio"** means Caixa Económica Montepio Geral. **"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) pecuniary receivables not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;
- (b) mortgage credits secured by junior mortgages provided all Mortgage Credits secured by senior



mortgages on the same property are held by the Issuer and allocated to the Cover Pool;

- (c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

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

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

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

- (a) deposits with the Bank of Portugal, in cash or 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 which will include, for the avoidance of doubt, any funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

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

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

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

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

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

**"Portuguese Companies Code"** means the commercial companies code ("Código das Sociedades Comerciais") approved by Decree-law no. 262/86, dated 2 September 1986, as amended from time to time, in particular by Decree-law no. 76-A/2006, dated 29 March 2006.

**"Portuguese Securities Code"** means the "Código dos Valores Mobiliários", approved by Decree-law no. 486/99, of 13 November 1999, as amended from time to time.

**"Principal Amount Outstanding"** means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

**"Programme"** means the €5,000,000,000 conditional pass-through covered bonds programme of the Issuer.

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

**"Programme Agreement"** means the agreement dated 27 April 2017 entered into between the Issuer and the Dealers, as amended, supplemented or restated from time to time.

**"Programme Documents"** means the Base Prospectus, the Programme Agreement, the Agency and Payments Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement, the Hedging Contracts and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

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

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

**"Property Valuation"** means, in relation to any Property:

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

**"Prospectus Directive"** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State).

**"Prospectus Regulation"** means Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended.

**"Provisions for Meetings of for Meetings of Holders of the Covered Bonds"** means the provisions contained in Schedule 1 of the Common Representative Appointment Agreement on Meetings of holders of Covered Bonds;

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

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

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

**"Register"** means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulatory Notices;

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

**"Regulatory Notice 6/2006"** means the regulatory notice ("*Aviso*") no. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the

issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

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

**"Requirements of the Cover Pool"** means the eligibility criteria and the prudential requirements of the assets allocated to the Cover Pool as set out in the Cover Pool Monitor Agreement;

**"Reserve Account"** means the cash account held with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, an in any case not lower than the minimum rating required by the Covered Bonds Law, being the Accounts Bank, and the operation of which shall be governed by Conditions 5.4 and 6.8 and the Reserve Account Agreement. The Reserve Account, and any balance to the credit thereof, will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool.

**"Reserve Account Agreement"** means the agreement so designated entered into between the Issuer and the Reserve Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on or about 7 July 2016, as amended and/or supplemented and/or restated from time to time.

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

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

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

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

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

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

**"Stabilising Manager"** means the Dealer or Dealers (if any) named as the stabilising manager(s) for a

particular Tranche of Covered Bonds.

**"Substitute Credit Institution" or "SCI"** means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

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

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

**"TARGET Day"** means any day on which the TARGET2 System is open.

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

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

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

**"Tax Deduction"** means any deduction or withholding on account of Tax.

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

**"Total Target Reserve Amount"** has the meaning given in Condition 5.4.

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

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

**"UCITS Directive"** means Council Directive 2009/65/EC of the European of the European Parliament and the Council of 13 July 2009, relating to undertakings for collective investment in transferable securities, which revoked as of 1 July 2011 Council Directive 85/611/EEC of 20 December 1985 (as amended by Council Directive 2001/107/EC of 21 January 2002 and 2001/108/EC of 21 January 2002).

**"Value"** means:

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

securities, including matured and accrued interests.

**"Written Resolution"** means, in relation to the Covered Bonds, a resolution in writing signed by or on behalf of all holders of Covered Bonds who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for Meetings of Holders of the Covered Bonds, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Covered Bonds.

## **ANNEX I – ALTERNATIVE PERFORMANCE MEASURES (GLOSSARY)**

In addition to the financial information contained in this Base Prospectus prepared in accordance with the financial reporting framework applicable to the Issuer, some Alternative Performance Measures ("APMs"), in accordance with ESMA Guidelines on Alternative Performance Measures dated 5 October 2015 (ESMA/2015/1415en) (the "ESMA Guidelines"), are also herein disclosed- Caixa Económica Montepio Geral discloses these APMs for better understanding of its financial performance.

These APMs constitute additional financial information and shall not, in any circumstance, replace the financial information produced under the applicable reporting framework. The definition and calculation of APMs by the Issuer may differ from the definition and calculation of APMs used by other issuers of securities and may not be compared.

For the purposes of the ESMA Guidelines, an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

	<b>APM</b>	<b>Page(s)</b>	<b>Definition of APM</b>	<b>Components and calculation basis</b>	<b>APM utility</b>
<b>1</b>	Common Equity Tier 1 ratio (CET1 ratio)	[16, 135, 146, 147, 154, 155, 158]	Common Equity Tier 1 ratio is a measurement of the Issuer's core equity capital compared with its total risk-weighted assets	It is calculated in accordance with the applicable regulatory standards, namely Directive 2013/36/EU and Regulation (EU) No. 575/2013 adopted by the European Parliament and by the Council (CRD IV/ CRR)	It is an indicator of the Issuer's financial strength and it is used by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent
<b>2</b>	Refinancing at the European Central Bank (ECB resources)	[135, 155]	Refinancing at the European Central Bank refers to the funds raised under the ECB monetary policy, which are pledge by ECB as eligible securities, included in the securities portfolio	Refinancing at the European Central Bank refers to the liability recorded in the balance sheet under "Deposits from central banks"	It is an indicator of the funds raised through the ECB
<b>3</b>	Commercial net interest income	[133]	Commercial net interest income refers to the net interest income related with the commercial activity with customers	Commercial net interest income = interest and similar income related with customers' activity - interest and similar expenses related with customers' activity	It is an indicator that allows a better analysis of the interest income generated in the commercial activity with customers; it does not include the interest income associated with the securities' portfolio and other financial instruments
<b>4</b>	Net interest income associated to securities and other financial instruments	[133]	Net interest income associated to securities and other financial instruments refers to the net interest income not related with the commercial activity with customers	Net interest income associated to securities and other financial instruments = net interest income – commercial net interest income	It is an indicator that allows a better analysis of the interest income not generated in the commercial activity with customers

	APM	Page(s)	Definition of APM	Components and calculation basis	APM utility
5	Cost of Credit Risk	[134, 157, 158]	Cost of Credit Risk is an indicator that reflects the cost recognized in the period to cover the risk of default in the customer credit portfolio and is expressed as a percentage of the customer credit portfolio	Cost of Credit Risk = loans impairments in annualized terms / average value in the period of the loan portfolio	It is an indicator that allows assessing the loan portfolio quality measured by the cost incurred with the default risk of such loan portfolio. This indicator is comparable to the intermediation margin, expressed in percentage points, and allows to gauge how much of the interest margin obtained is absorbed by the cost of credit
6	On balance sheet resources	[134]	Total on-balance sheet resources	On balance sheet resources = deposits from individuals + deposits from companies and institutional + securities placed on customers	It is an indicator that totals the customer resources that are recorded in the balance sheet. These resources, together with other third-party resources and own resources are used to finance the activity (the assets in the balance sheet)
7	Off balance sheet resources	[134]	Total off-balance sheet resources	Total off-balance sheet resources = savings and investment products under management of CEMG Group	It is an indicator that totals the customer resources that are recorded off balance sheet and therefore are not used to finance the activity
8	Total customer resources	[134]	Total customer resources	Total customer resources = on balance sheet resources + off balance sheet	It is an indicator that totals the customer resources



	APM	Page(s)	Definition of APM	Components and calculation basis	APM utility
				resources	
9	Simple coverage of credit at risk by impairment	[143]	Simple coverage of credit at risk by impairment refers to the ratio of the loans impairment by the credit at risk	Simple coverage of credit at risk by impairment = loans impairment / credit at risk	It is an indicator of the institution capacity to absorb potential losses arising of the credit at risk
	Coverage of credit at risk by impairment and the associated real estate collateral	[143]	coverage of credit at risk by impairment and the associated real estate collateral refers to the ratio of the loans impairment and the real estate collateral associated to the credit at risk by the credit at risk	coverage of credit at risk by impairment and the associated real estate collateral = (loans impairment + real estate collateral associated to the credit at risk) / credit at risk	It is an indicator of the institution capacity to absorb potential losses arising of the credit at risk, taking into consideration the real estate collateral linked to the credit at risk
10	Net banking income	[157]	Net banking income refers to the operating income related with the banking activity	Net banking income = net interest income + dividends from equity instruments + fees and commissions + results from financial operations + other operating income	It is an indicator of the banking activity income
11	Ratio of Credit at Risk	[156]	It is the quality indicator of the loan portfolio that reflects the proportion of the gross loan portfolio that is in a credit risk situation	It is calculated in accordance with the definition established by the Bank of Portugal Instruction No. 16/2004 (it includes loans in arrears for more than 90 days, the related falling due loans, restructured loans and insolvency situations not yet included in the loans in arrears for more than 90 days)	It is an indicator that relativizes the amount of credit at risk, being useful to assess the quality of the loan portfolio

**REGISTERED OFFICE OF THE ISSUER**

**Caixa Económica Montepio Geral**

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**ARRANGER**

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