Base Prospectus

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

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

€6,000,000,000

Euro Medium Term Note Programme

On 19 May 2000, the Issuer (as defined below) entered into a €2,000,000,000 Euro Medium Term Note Programme (the "**Programme**") which has been increased and updated from time to time. Any Notes to be issued after the date hereof under the Programme are issued subject to the provisions set out herein save that Notes which are to be consolidated and form a single series with Notes issued prior to the date hereof will be issued subject to the Conditions of the Notes applicable on the date of issue for the first tranche of Notes of such series. Subject as aforesaid, this does not affect any Notes issued prior to the date hereof.

Under the Programme, Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("**Banco Montepio**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed €6,000,000,000 (or the equivalent in other currencies).

Application has been made to the Commission de Surveillance du Secteur Financier (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 16 July 2019 relating to prospectuses for securities (as amended, the "**Luxembourg Act**") for the approval of this base Prospectus (the "**Base Prospectus**") as a base prospectus for the purposes of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Pursuant to the Luxembourg Act, by approving this Base Prospectus the CSSF assumes no responsibility as to the economic and financial soundness of the Notes to be issued thereunder or the quality or solvency of the Issuer. The CSSF has only approved this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Notes that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the Notes. Furthermore, such approval relates only to Notes which are to be admitted to trading on a regulated market for the purposes of the Prospectus Regulation and/or which are to be offered to the public in any Member State of the European Economic Area ("**EEA**"). By approving this Base Prospectus, in accordance with Article 20 of the Prospectus Regulations, the CSSF does not engage in respect of the economic or financial opportunity of the operation or the quality and solvency of the Issuer. This Base Prospectus is valid for a period of twelve months from the date of approval. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List of the Luxembourg Stock Exchange (the "**Official List**") and admitted to trading on the regulated market of the Luxembourg Stock Exchange (the "**Market**"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**") of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (as defined below) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange).

Each Tranche of Notes (as defined in "*General Description of the Programme*") will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by a document specific to such Tranche called the final terms (the "**Final Terms**"). Details of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes and the issue price of Notes for each Tranche of Notes will be set out in the relevant Final Terms which, with respect to Notes to be admitted to the Official List and to trading on the Luxembourg Stock Exchange, will be delivered to the CSSF and the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

Each Series (as defined herein) of Notes will be issued in book-entry form (*escriturais*) and registered form (*nominativas*) that will be integrated in and held through Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), as management entity of the Portuguese Centralised System of Registration of Securities, *Central de Valores Mobiliários*.

The Programme has been rated: (P)Caa1 (senior unsecured) / (P)Caa1 (senior non-preferred) / (P)Caa1 (subordinated) / (P)Caa2 (junior subordinated) / (P)NP (short-term) by Moody's Investor Service España, S.A. ("**Moody's**"); B- (senior unsecured) / B- (senior non-preferred) / B (short-term) by Fitch Ratings Ltd. ("**Fitch**") and BB (senior unsecured) / B (high) (subordinated) / R-4 (short-term) by DBRS Ratings Limited ("**DBRS**"). The "Caa" rating by Moody's indicates that the Programme is speculative, of poor standing and subject to very high credit risk. The ""NP" rating by Moody's indicates that the Programme is rated as not prime and does not fall within any of Moody's prime rating categories. The "B" rating by Fitch indicates the Programme is of highly speculative credit quality. The "BB" rating by DBRS indicates that the Programme is of speculative, non-investment grade credit quality, with uncertain capacity for payment of financial obligations and is vulnerable to future events. The "B" rating by DBRS indicates the the Programme is of highly speculative credit quality and there is a high level of uncertainty as to the capacity to meet financial obligations. The "R-4" rating by DBRS indicates that the Programme is of highly speculative credit quality (with R-5 being the highest level). The Moody's, Fitch and DBRS are established in the EU and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"). As such each of Moody's, Fitch and DBRS is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Tranches of Notes (as defined in "*General Description of the Programme*") to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme and/or the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms. A list of rating agencies registered under the CRA regulation can be found at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk.

A security 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.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA (an "**EEA State**") in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The Notes are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients, as defined in MiFID II. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" of this Base Prospectus for further information.

*Prospective investors should have regard to the risk factors described under the section headed "**Risk Factors**" in this Base Prospectus. This Base Prospectus does not describe all of the risks of an investment in the Notes.*

Arranger

BofA Securities

Dealers

BNP PARIBAS
Caixa Económica Montepio Geral, caixa económica bancária, S.A.
Crédit Agricole CIB
Deutsche Bank
ING
Montepio Investimento S.A.
NatWest Markets
UniCredit Bank

BofA Securities
Citigroup
Credit Suisse
DZ BANK AG
J.P. Morgan
Natixis
Société Générale Corporate & Investment Banking

The date of this Base Prospectus is 31 October 2019

IMPORTANT INFORMATION

This document comprises a base prospectus for the purposes of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Base Prospectus (including in relation to the Issuer, for the avoidance of doubt, any information contained in the relevant Final Terms relating to each Tranche of Notes issued under the Programme). To the best of the knowledge of the Issuer the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in a Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer.

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

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

IMPORTANT – EUROPEAN ECONOMIC AREA RETAIL INVESTORS

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

MiFID II PRODUCT GOVERNANCE / TARGET MARKET

The relevant Final Terms in respect of any Notes will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as modified or amended from time to time, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

BENCHMARKS REGULATION

Interest payable under the Floating Rate Notes may be calculated by reference to the London Interbank Offered Rate ("**LIBOR**") and the Euro Interbank Offered Rate ("**EURIBOR**") (each as defined herein), which are benchmarks for the purposes of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**").

LIBOR is provided by ICE Benchmark Administration Limited and EURIBOR is provided by the European Money Markets Institute. As at the date hereof, both ICE Benchmark Administration Limited and the European Money Markets Institute appear in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation.

However, Article 51 (*Transitional provisions*) of the Benchmarks Regulation provides that providers already providing a benchmark on 30 June 2016 have until 1 January 2020 to apply for authorisation or registration in accordance with Article 34 (*Authorisation and registration of an administrator*) of the Benchmarks Regulation and may continue to provide such existing benchmark until 1 January 2020 or, where the provider submits an application for authorisation or registration, unless and until such authorisation or registration is refused. Such transitional provisions may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date hereof. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update this Base Prospectus to reflect any change in the registration status of the administrator.

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

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restrictions. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account of or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act ("**Regulation S**"). If TEFRA C is specified as "Applicable" in the relevant Final Terms, then the Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "*Subscription and Sale*".

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

Save for Banco Montepio, no other person has separately verified the information contained herein. To the fullest extent permitted by law, none of the Dealers (excluding Banco Montepio acting in its capacity as Issuer) or the Arranger accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

An investment in the Notes 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 Notes and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators. The Notes are not guaranteed by any person. In addition, an investment in Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Notes. See "*Risk Factors*".

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

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

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

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

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

STABILISATION

In connection with the issue of any Tranche (as defined in "*General Description of the Programme*"), the Dealer or Dealers (if any) named as the stabilisation manager(s) (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF INFORMATION

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**" and "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time. Certain amounts that appear in this Base

Prospectus have been subject to rounding adjustments. Accordingly, the figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them and amounts expressed as percentages may not total 100 per cent. when aggregated.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

SUPPLEMENT TO THE BASE PROSPECTUS

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

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur.

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

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the risks of holding any Notes 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.

In this Base Prospectus, the most material risk factors have been presented at the beginning of each category. The order of presentation of the remaining risk factors in each category in this Base Prospectus is not intended to be an indication of the probability of their occurrence or of their potential effect on the Issuer's ability to fulfil its obligations under the Notes.

Risk factors relating to Banco Montepio's legal status as a savings bank (caixa económica bancária)

Change in legal framework of the Issuer

On 14 September 2017, the Issuer completed a change in its legal status from a savings bank affiliated to MGAM into a full service savings bank (*caixa económica bancária*) incorporated as a public limited liability company (*sociedade anónima*), under the supervision of Banco de Portugal. The nature of the Issuer as a full service savings bank (*caixa económica bancária*) limits the types of entities that can hold the majority of the capital or the voting rights in the Issuer, in particular, these are mutual associations, charities and beneficial institutions. This legal limitation may have a material adverse effect on the Issuer's ability to meet its capital requirements and a failure to meet such requirements may have a material adverse effect on the Issuer's condition, the ability to pursue its business and results of its operations.

Reliance on Montepio Geral Associação Mutualista as an equity provider

Banco Montepio was established by Montepio Geral Associação Mutualista ("**MGAM**") in 1844, as an affiliated entity (*entidade anexa*) of MGAM, in order to support MGAM in the pursuit of its goals. MGAM is a private institution of social support (i.e. a mutual benefits association) whose principal 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.

MGAM is a mutual benefits association and is the major shareholder (owner institution or *instituição titular*, as per the Savings Banks Act) of Banco Montepio with 99.99 per cent. of Banco Montepio's share capital, pursuant to article 6 no. 2 of the Savings Banks Law.

If MGAM is not in a position to capitalise Banco Montepio and/or the contribution of other shareholders in Banco Montepio's capital is not sufficient to allow it to meet its capital requirements, this may have a material adverse effect on the Issuer's condition, the ability to pursue its business and results of its operations.

Moreover, MGAM's main source of funds is membership revenues and the subscribed members' savings plans (*modalidades mutualistas*). 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 Banco Montepio) and real estate. Among these investments, and as at 31 December 2018, MGAM held €174.6 million of notes issued by Banco Montepio, which represents approximately 1.04 per cent. of Banco Montepio's total liabilities.

If MGAM's performance, either financial or reputational, deteriorates and MGAM is not able to provide additional share capital or funding to Banco Montepio, it may have a material adverse impact on Banco Montepio's ability to meet its capital requirements and the cost of its funding and, as a result, its prospective financial performance and condition.

The Issuer cannot predict the negative consequences, if any, that may arise from MGAM ceasing to own 99.99 per cent. of the Issuer's share capital and corresponding voting rights

Being a full service savings bank, the Savings Banks Act limits the types of entities that can hold the majority of the capital or the voting rights in the Issuer, in particular, these are mutual associations, charities and beneficial institutions.

MGAM may elect to offer Banco Montepio's shares to investors generally, without prejudice to its capacity as Banco Montepio's owner institution (*instituição titular*).

The participation of these investors in Banco Montepio's share capital may be perceived by its stakeholders as a sign of MGAM's inability to provide additional share capital to the Issuer. This could have a material adverse effect on investor confidence in MGAM and, as a result, a material adverse effect of the Issuer's business, reputation, financial condition and results of operations or prospects.

The Issuer cannot predict the negative consequences, if any, that may arise from change in the supervisory entity and rules applicable to Montepio Geral Associação Mutualista

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

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

This authority may introduce new rules that restrict MGAM from providing additional share capital. Furthermore, the Issuer cannot predict other rules which the authority may introduce and the effects such rules may have on MGAM's organisation and performance and, in particular, its relationship with the Issuer.

Please refer to the section "*Change in legal framework of the Issuer*" for a description of the possible consequences arising from the change of Banco Montepio's legal nature into a public limited liability company in 2017.

Risk factors relating to Banco Montepio's business

As a result of its business activities, Banco Montepio is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Failure to control these risks may result in a material adverse effect on Banco Montepio's financial condition and results of operations.

Credit risk

The Issuer is exposed to the credit risk of its customers, to concentration risk in its credit exposure and to the credit risk of its counterparties. Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in Portuguese or global economic conditions, or arising from systemic risks in financial systems, could affect recovery and, accordingly, the value of the Issuer's assets and require an increase in the Issuer's provision for credit impairment and other related provisions, and accordingly would have a material adverse effect on the financial condition and capital position of the Issuer and/or the Group and on the results of the Issuer and/or the Group's operations. As at 31 December 2018, Banco Montepio's total credit risk exposure was €15,133 million (€16,522 million as at 31 December 2017). The balance of Non-Performing

Exposures ("**NPEs**") amounted to €1,879 million as at 31 December 2018, representing 14.4 per cent. of the Issuer's gross loan portfolio.

An increase in Non-Performing Loans ("**NPLs**") would result in a deterioration of the Issuer's asset quality metrics and adversely impact the Issuer's ability to reduce the level of NPLs in accordance with the Transformation Plan (as defined in "*Description of the Issuer - Strategy*").

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.

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

It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effect that such changes could have on the Issuer's financial condition and on the results of its operations.

The most significant market risks faced by the Issuer are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. 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.

For interest rate risk measurement purposes, assets and liabilities sensitivity to interest rate changes are aggregated by time bands according to their respective repricing dates, and the balance-sheet interest rate mismatch is calculated. As at 31 December 2018, the interest rate gap was €3,032 million compared to -€2,599 million as at 31 December 2017. The increase in the interest rate gap as at 31 December 2018 compared to 31 December 2017 is predominantly due to inclusion of the deposits held in Banco de Portugal and the exclusion of the deposits on demand from customers (these deposits pay no interest and are not considered sensitive to changes in interest rates) from the interest rate gap calculation for the year ended 31 December 2018.

For currency risk, the measurement procedure is the application of funds raised in various currencies through active money markets and for periods not exceeding those of the funds raised. Thus, existing exchange rate gaps are essentially due to possible mismatches between the periods of the application of funds and of the resources.

A significant downward movement in global capital markets could 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. If the value of the assets in the Issuer's pension fund deteriorates, the Issuer may be required to make additional contributions to the fund and, consequently, this may have a negative impact on the Issuer's ability to allocate its net profit to the development of its business activity.

The impact of a change in interest rates could have an adverse effect on the Issuer's profit and loss and/or net interest income. As at 31 December 2018, a shift in interest rates by 1.0 percentage point would have led to a decrease in the expected economic value of the bank portfolio of approximately €19.0 million, compared with an increase of €12.2 million as at 31 December 2017.

The most relevant exposure of the Issuer is in relation to Portuguese sovereign debt. Please refer to the risk factor headed "*Sovereign Debt and Sovereign Risk*" for additional information.

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. The occurrence of any of these operational risks may adversely impact the Issuer's business, reputation, financial condition and results of operation or prospects.

Liquidity risk

Liquidity risk reflects the risk of the inability of the Issuer to fulfil its payment obligations 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's practices reflect the utilisation of diversified financing sources, focusing on stable sources, in particular deposits, as well as the maintenance of highly liquid assets, which comply with the ECB's Eligibility Criteria.

The Issuer has a limited exposure to the capital markets. The majority of the Issuer's liquid assets are in the form of deposits. If it cannot get funding from the capital markets or maintain its deposits, it may not be able to meet its short term funding requirements.

The Issuer's development is dependent on successful implementation of its Transformation Plan.

In March 2018, the Issuer adopted a new strategy to improve the efficiency, profitability and adequacy of Banco Montepio's business model, and subsequently launched a Transformation Plan to analyse Banco Montepio's existing position and establish a vision for Banco Montepio with clear options and specific business goals for the medium and long term. For more information, see "*Business Description – Strategy*". There may be risks and unforeseen circumstances related to the Transformation Plan that the Issuer is not aware of, or that were considered immaterial by the Issuer. Expected revenue and cost synergies, operational efficiencies, business growth and other benefits may not materialise because the assumptions upon which informed the Group's decision to proceed with its strategy might be incorrect or the economic environment, or the competition landscape, might have changed since March 2018. Any such risks and unpredictable circumstances may adversely affect the business and performance of the Issuer.

The Issuer's activity is subject to reputational risk

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

The Issuer may not be able to foresee and mitigate the impacts of this risk and if this risk occurs it could materially adversely affect the Issuer's business, reputation, financial condition and operating results or prospects.

Litigation and Conduct risks

Banco Montepio faces various issues that may give rise to the risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, and conduct by companies in which Banco Montepio holds strategic investments or joint venture partnerships, which could increase the number of litigation claims and the amount of damages asserted against Banco Montepio, or subject Banco Montepio to regulatory enforcement actions, fines and penalties. Banco Montepio is currently subject to ongoing litigation, in particular:

(i) in November 2016, Banco Montepio was notified by Banco de Portugal of an accusation under an administrative proceeding related to alleged breaches of certain Anti-Money Laundering ("**AML**") procedures. In January 2017, Banco Montepio presented its defence and, as at the date of this Base Prospectus, the administrative decision relating to this proceeding is pending;

(ii) on 21 February 2019, Banco de Portugal imposed an administrative fine (*coima*) of €2.5 million on Banco Montepio and an ancillary sanction consisting of the publication of the final ruling; on 9 September 2019, the Competition, Regulation and Supervision Court (*Tribunal da Concorrência, Regulação e Supervisão*) of Santarém annulled the unfavourable ruling of 21 February 2019, whereby Banco de Portugal imposed this administrative fine (*coima*). Banco de Portugal subsequently issued a public notice (*comunicado*) announcing that it will appeal this ruling and was joined by the state prosecutor (*Ministério Público*) in its appeal; and

(iii) on 9 September 2019, Banco Montepio was notified of the decision by the Competition Authority (*Autoridade da Concorrência*) on the administrative process PRC-2012/9, in which it was held that Banco Montepio (and other Portuguese banks) were engaged in anti-competitive practices and the exchange of sensitive commercial information, in breach of Article 9 of Law no. 19/2012, of 8 May 2012 and Article 101 of the Treaty on the Functioning of the European Union, and imposed on Banco Montepio a fine of €13 million.

As at the date of this Base Prospectus, Banco Montepio cannot predict the outcome of the above described proceedings. For more information on Banco Montepio's ongoing litigation, see "*Description of the Issuer – Legal and arbitration proceedings*". Any material legal proceedings, publicity surrounding such legal or regulatory proceedings or an unfavourable decision from these legal proceedings may adversely impact on Banco Montepio's business, reputation and operating results.

International Activity

The international activity of the Banco Montepio Group is carried out by the subsidiaries Finibanco Angola, S.A. (“**Finibanco Angola**”), Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and, until December 2018, BTM – Banco Terra, S.A. (“**BTM**”) in Mozambique. BTM was sold in December 2018 and is no longer part of the Group as at 31 December 2018.

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

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

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

A downgrade in the credit ratings of the Issuer.

Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Issuer's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Issuer's cost of borrowing funds. As at the date of this Base Prospectus, the Issuer had been assigned a rating of: Long Term Issuer Default Rating of “B+” and Short Term Issuer Default Rating of “B” by Fitch; Baseline Credit Assessment of “B3” by Moody’s and Long Term Issuer Rating of “BB” and Short Term Issuer Rating of “R-4” by DBRS. The ratings assigned to the Issuer by Fitch indicate that material default risk is present, but a limited margin of safety remains, financial commitments are currently being met, however, capacity for continued payment is vulnerable to deterioration in the business and economic environment. The rating assigned to the Issuer by Moody's indicates that the Issuer is judged to have speculative intrinsic, or standalone, financial strength, and is subject to high credit risk absent any possibility of extraordinary support from an affiliate or a government. The rating assigned to the Issuer by DBRS indicates that the Issuer is of speculative, non-investment grade credit quality; its capacity for the payment of financial obligations is uncertain; and it is vulnerable to future events. A downgrade of the Issuer's credit ratings, or being placed on a negative ratings watch, may increase its cost of borrowing and have a material adverse effect on its business, reputation, financial condition and results of operations or prospects.

A downgrade of the Issuer's credit ratings (or announcement of a negative ratings watch) may also limit its ability to raise funding or capital. Moreover, actual or anticipated changes in the Issuer's credit ratings or the credit ratings of the Notes (if applicable) generally may affect the market value of the Notes. In addition, ratings assigned to the Notes (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in this Base Prospectus and other factors may affect the value of the Notes.

In addition, a downgrade or potential downgrade of Portugal's sovereign rating or a change in rating agency methodologies relating to systemic support provided by Portugal could negatively affect the perception by ratings agencies of the Issuer's rating. There can also be no assurance that the rating agencies will maintain the Issuer's current ratings or outlooks or those of Portugal.

Sovereign Debt and Sovereign Risk

Even if there is a strong improvement in demand from international investors for the yield on Portuguese sovereign debt, which would be evidenced by the narrowing of the spread between the yield on Portuguese sovereign debt and the yield on German public debt with equivalent maturities, there is no guarantee that this trend will be maintained. The high level of indebtedness of the Portuguese Republic, the perception that Portugal may fail to meet its fiscal targets, combined with uncertainty regarding the long-term growth potential of the domestic economy, may result in an increase in the sovereign risk premium for Portuguese public debt securities in secondary debt markets and restrict access of the Portuguese Republic to primary debt markets. Such risk could be exacerbated by reduced confidence in international financial markets or be triggered by weak performance in the domestic economy or adverse developments in the local political environment.

Should the foregoing occur, a deterioration of Portuguese sovereign debt risk could negatively impact the Issuer’s liquidity position, both through funding difficulties and the reduction of the Issuer’s pool of assets eligible for discount at the ECB, in addition to increased funding costs and the Issuer’s capacity to increase its loan and asset portfolio. This could have 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 significant exposure of the Issuer is in relation to Portuguese sovereign debt, comprised in its own securities portfolio. As at 31 December 2018, the exposure of the Issuer to Portuguese sovereign debt was €1,049.9 million, being €12.0 million in the fair value through other comprehensive income (FVOCI) portfolio and €1,037.8 million in the amortised cost portfolio. These positions could be adversely affected by volatility in Portuguese sovereign debt creating a risk of substantial losses.

As at 31 December 2018, the results from sales of Portuguese public debt portfolios reached €8.2 million compared to €73.4 million as at 31 December 2017. There is a risk that the Issuer may not receive these capital gains in the future or even that losses may be recognised in the future if market appetite for Portuguese securities turns subdued compared to other peripheral economies.

Concentration risk and significant exposure to the real estate market

The Issuer has significant credit exposure to certain groups of clients. The Issuer has a well-diversified loan portfolio, with the top 10 exposures representing 6.7 per cent. of the Issuer’s loan portfolio as at 31 December 2018. 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.

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

The total value of Investment Properties held by the Issuer as at 31 December 2018 amounted to €253.1 million (€538.6 million as at 31 December 2017) and included real estate properties held by various funds which are consolidated into the results of the Group and properties held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

The Issuer's Non-current Assets Held for Sale arising from foreclosed loans amounted to €737.9 million as at 31 December 2018 (€742.2 million as at 31 December 2017) and included 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 entering into of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of the Issuer; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (*payment pro solvendo*). According to the Issuer's expectation, these assets are expected to be sold in a period of less than one year and the Issuer has a strategy for its sale. Nevertheless, given current market conditions, and although those assets are intended to be sold as soon as possible, in some situations this is not possible.

The participation units of real estate funds held in the Issuer's own portfolio amounted to €296.6 million as at 31 December 2018 (€213.5 million as at 31 December 2017).

Given that current real estate prices are relatively high compared to historical levels and the cyclical nature of the Portuguese real estate market, there is a risk that Portuguese real estate prices will decrease from current levels.

Changes in the Portuguese real estate market regulations, adverse geopolitical events and a general slowdown in global economic activity, may lead to a decline in demand for real estate and, consequently, a downward adjustment in prices.

A significant devaluation of prices in the Portuguese real estate market may lead to impairment losses in the assets held directly by Banco Montepio and increased exposure in counterparty risk for loans secured on 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 or prospects.

Banco Montepio is exposed to pension fund risk

Pension fund risk arises from the potential devaluation of Banco Montepio's pension fund portfolio of assets or from a decrease of income from those assets.

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

As at 31 December 2018, the accumulated negative actuarial deviation of the pension fund stood at €223 million (€188 million as at 31 December 2017).

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

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

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

Deferred Tax Assets Regime

As at 31 December 2018, the Issuer had registered Deferred Tax Assets ("**DTAs**") of €460.3 million (as at 31 December 2017: €466.0 million), of which €63.7 million were not dependent on future profitability (as at 31 December 2017: €91.3 million).

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

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

For further information, please refer to section "*Banking regulation in Portugal*".

IT and Telecommunications Systems Risk

The Issuer faces the risk that computer or telecommunications systems could fail. 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.

Failure of the Issuer's information technology systems could lead to a breach of regulations and (contractual) obligations and have a material adverse effect on the Issuer's business, reputation, financial condition and results of operation or prospects.

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

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

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

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

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

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

If any of these circumstances occur, there could be a material adverse effect on the Issuer's business, reputation, financial condition and results of operation or prospects.

Risks related to the legal and regulatory framework

Exposure to extensive and changing legislative and regulatory oversight

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. Future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer. There is a risk that changes in financial services laws, regulations, administrative actions and policies might negatively affect the Issuer's business, reputation, financial condition and results of operations or prospects.

Borrower's protection laws

Existing legal and regulatory frameworks impose obligations for credit institutions to ensure protection for borrowers, including, implementing procedures for gathering information, contacting borrowers, monitoring the execution of loan agreements and managing default risk situations; the duty to assess the financial capacity of borrowers and present default correction proposals adapted to the borrower's situation; and drawing up a plan for restructuring debts emerging from home loans or replacing mortgage foreclosures that in some cases of extra-judicial procedures may restrict the Issuer's options to (i) terminate the relevant agreements; (ii) initiate judicial proceedings against the borrower; (iii) assign its credits over the borrower; or (iv) transfer its contractual position to a third party. These legal and regulatory frameworks for borrower's protection are expected to continue in the future.

Any existing or future legislation and regulation for the protection of borrowers may limit the Issuer's rights with respect to their powers over defaulting clients and, as a result, may have a material adverse effect on the Issuer's business, reputation, financial condition and results of operations or prospects.

Implications of a negative EURIBOR on credit agreements for consumers relating to residential real estate property

Law No. 32/2018, of 18 July, amending Decree-Law No. 74-A/2017, of 23 June, on credit agreements for borrowers relating to residential real estate property, entered into force on 19 July 2018 and, in the context of residential loan agreements, imposes on banking institutions, including the Issuer, the obligation to reflect the existence of negative rates in the calculation of interest rates applicable to the loans.

According to this new law, when the sum of the relevant index rate (such as EURIBOR) and the relevant margin is negative, this negative interest rate amount will have to either (i) be discounted from the principal amounts outstanding of the relevant loans or (ii) be converted into a credit which may in the future set off against positive interest rates (and ultimately paid to the borrowers if it has not fully been set off at maturity).

The compliance with the above mentioned law may have a negative impact in relation to the interest accruing on the housing loans forming part of the Issuer's loan portfolio, insofar as a variable interest rate has been agreed under such loans, and the relevant Euribor rate is below zero. This may negatively affect the Issuer's business, reputation, financial condition and results of operation or prospects.

Regulation of the 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 Banco de Portugal and guidelines issued by the ECB and the European Banking Authority ("**EBA**"), mainly relating to liquidity levels, solvency and provisioning, and also extensive regulation by the Portuguese Securities Regulator (the "**CMVM**") (including, as an insurance intermediary (type 1)) and supervision by the Insurance and Pension Funds Supervisory Authority ("**ASF**"), as well as by other competent regulators of jurisdictions in which it operates.

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 2018-2021 for the strengthening of the capital ratios, as stated in the FCP submitted to Banco de Portugal. This plan aims to achieve capital buffers that allow capital ratios to be set in excess of the CRR and CRD IV by 2019. See *Description of the Issuer – 2018 consolidated activity and results (audited).*

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, reputation, financial condition and results of operation or prospects.

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 products and services it offers and/or the value of its assets. Future regulatory changes, changes in tax laws or other alterations may be unpredictable and are outside the Issuer's control.

It is not possible to predict the timing or form of any future regulatory initiatives. A potential further alignment by Banco de Portugal to the ECB's regulations and recommendations may harden its stance in certain areas, such as capital requirements and acceleration of NPL disposals, which may, in turn, have an adverse impact on the Issuer and/or the Group's results and financial position. 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, reputation, financial condition and results of operations or prospects.

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 General Regime for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* ("**RGICSF**") regulated by the Decree-Law 298/92, of 31 December 1992, as amended).

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

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

Banco de Portugal may require the Issuer to make changes to its 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.

The minimum requirement for own funds and eligible liabilities regime ("**MREL**"), became effective during 2016, and requires the issue of new senior debt with a subordination structure or strengthening of Tier 2 capital. The implementation of the MREL regime is subject to a transition period and will have implications on the issue of debt by bank institutions, which will lead to changes in the liability structure.

In accordance with Article 145-Y of the RGICSF, financial institutions will be required to meet an MREL requirement set by Banco de Portugal. The actual size of the Issuer´s MREL has not yet been set. Banco Montepio expects that Banco de Portugal will decide and notify it, during 2019, of what its MREL should be, as well as the timing for its implementation. The expectation is that Banco Montepio will be granted a period of several years (to be confirmed by Banco de Portugal once its MREL requirement is known) to comply with its MREL requirement, but it will be required to comply at least in part at an early date.

In order to meet MREL requirements, the Issuer may need to issue MREL-eligible instruments, impacting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain the Issuer's strategy, could increase the average cost of the Issuer's liabilities, in particular, without limitation, the cost of additional Tier 1 and Tier 2 instruments and thus negatively affect the Issuer's earnings. Tier 1 instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, if they include convertibility features.

Accordingly, the Issuer may not be able to issue the necessary MREL-eligible instruments, due to adverse market conditions or to investors' negative perception of the Issuer, which could lead to a failure to comply with the regulatory requirements, or, alternatively, if the Issuer is able to issue the above mentioned instruments, there is a risk that market conditions will be such that the Issuer will need to issue those instruments at a higher premium. These proposals and/or requirements could therefore have an adverse effect on the business, reputation, financial condition and results of operation or prospects of Banco Montepio.

Basel Committee: potential impact of Basel IV requirements

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

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

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

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

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

The CRD IV/CRR requirements adopted in Portugal are expected to change over the next two years as a result of changes to the CRD IV/CRR agreed by EU legislators. On 23 November 2016, the EU Commission proposed substantial changes to the CRD IV, the CRR, the Bank Recovery and Resolution Directive ("**BRRD**") and the Single Resolution Mechanism framework (the "**November 2016 Proposals**"). The November 2016 Proposals were adopted by the Council on 14 May 2019 and published in the Official Journal of the EU, as follows:

- Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC ("**BRRD II**"); and
- Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms ("**SRMR II**"),

both BRRD II and SRMR II entered into force on 27 June 2019. BRRD II shall be implemented on or before 28 December 2020 and SRMR II shall apply from 28 December 2020.

Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending the Capital Requirements Regulation as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements ("**CRR II**") and Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending the Capital Requirements Directive IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures ("**CRD V**") introduce a new approach for the measurement of counterparty credit risk, the implementation of the NSFR, a changed framework for interest rate risk and changes to the treatment of trading book exposures, in addition to other amendments relating to capital, liquidity, leverage, remuneration and the EU's recovery and resolution framework. Most of the provisions of CRD V are required to be transposed into national law by 28 December 2020, with application immediately thereafter. CRR II will apply from 28 June 2021 (subject to certain earlier applications and exemptions, such as those relating to the transitional arrangements for IFRS 9 and the characteristics of new regulatory capital instruments).

Under the new legal framework, there is the risk that the Issuer is not able to comply with stricter and more demanding regulatory requirements regarding capital, liquidity, leverage, and others in a timely manner.

The impact on the Issuer of the recent resolution measures in Portugal cannot be anticipated

Following the decision of Banco de Portugal on 3 August 2014 to apply a resolution measure to Banco Espírito Santo ("**BES**"), most of its business was transferred to a bridge bank, Novo Banco, specifically set up for that purpose and capitalised by the resolution fund – as created by Decree-law 31- A/2012, of 10 February 2012 (the "**Resolution Fund**"). The Resolution Fund is funded by contributions from the institutions participating in the Resolution Fund and contributions from the Portuguese banking sector – with an initial share capital of €4.9 billion. Of this amount, €300 million corresponded to the Resolution Fund's own financial resources, €3.9 billion resulted from a loan granted by the Portuguese State (the "**2014 Portuguese State Loan**"), €700 million from a loan granted by a group of credit institutions that are members of the Resolution Fund including the Issuer (the "**Participants' Loan**"). The Issuer's share of the Participants' Loan was and remains at €70 million.

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 institutions participating in the Resolution Fund. Contributions to the Resolution Fund are adjusted to reflect the risk profile, the systemic relevance and the solvency position of each participating institution. This number varies over time and it is very difficult to determine the Issuer's exact participation at any given point in time.

In 2018 and in accordance with Decree-Law no. 24/2013, the total contribution amount totalled €60.5 million, which represented an increase of €12 million over the previous year, of which circa 4.5 per cent. were contributions from the Issuer.

In relation to the contribution on the banking sector and in accordance with the available data, the value received by the State amounted to €186 million (o.w. circa 6.0 per cent. paid by the Issuer).

The periodic contribution created within the scope of BRRD transposition amounted to €132 million (o.w. circa 6.1 per cent. paid by the Issuer), including contributions collected under the combined terms of the scheme transposing BRRD and the SRM Regulation to the institutions covered by the SRM, which was therefore almost entirely transferred to the SRF under Intergovernmental Agreement.

The negative impact on the Issuer of the resolutions of BES and Banif cannot be anticipated, as there is the risk the Resolution Fund may need further recapitalisation while both resolutions are not totally settled. See "*The Portuguese Banking Sector – The resolution measure applied to Banco Internacional do Funchal, S.A. ("**Banif**")*" for further information.

Furthermore, there is the risk that the resolution measures applied to BES and Banif may prejudice investors' and economic agents' positive perception of the Portuguese financial system and the Issuer as a participant thereto.

New requirements related to liquidity ratios may affect profitability

The Basel III recommendations endorse the implementation of liquidity coverage ratios for short and medium/long-term liabilities, known as the 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 and is calculated in accordance with Delegated Regulation (EU) 2015/61 of the European Commission, of 10 October 2014. Since 2018, financial institutions have been required to maintain, in their own portfolio, high quality liquidity assets corresponding to 100 per cent. of the net cash outflows in the following 30 days.

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.

The Issuer is subject to compliance risk with existing and future regulations, the breach of which could cause damage to the Issuer

The Issuer operates in a highly regulated industry. The Issuer's banking activities are subject to extensive regulation by, among other entities, the ECB, Banco de Portugal, the European Banking Authority ("**EBA**"), the European and Securities Markets Authority ("**ESMA**") and the Portuguese Securities Market Commission ("**CMVM**", Comissão do Mercado de Valores Mobiliários), as well as other supervisory authorities from the EU and the countries in which the Issuer conducts its activities. These regulations relate to liquidity, capital adequacy and permitted investments, ethical issues, money laundering, bribery and terrorism financing, privacy, know your customer, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Compliance with anti-money laundering, anti-bribery and counter-terrorist financing rules entails significant costs and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Issuer believes that its current anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, the Issuer cannot guarantee that it will comply, at all times, with all applicable rules or that its regulations for fighting money laundering, bribery and terrorism financing, as extended to the Issuer, are applied by its employees under all circumstances. This may lead to material adverse effects on the Issuer's business, reputation, financial condition and results of operations or prospects.

All the above regulations are complex and their fulfilment implies high costs in terms of time and other resources. Additionally, non-compliance with the applicable regulations may result in damage to the Issuer’s reputation, the application of penalties and even the loss of authorisation to carry out its activities.

Due to the persistence of the financial crisis and the subsequent government intervention, regulation in the financial services sector has increased substantially over the last decade and this trend is expected to continue. Further regulation of the sector may include measures such as the imposition of higher and more stringent capital requirements, leverage ratios and loss absorbing capacity resources more generally, as well as more demanding duties concerning the disclosure of information and more onerous restrictions on certain types of activity or transactions.

In addition, new regulations may restrict or limit the type or volume of transactions in which the Issuer participates, or cause a change in the fees or commissions that the Issuer charges on certain loans or other products; consequently, any changes in regulation or supervision, particularly in Portugal, may have a material adverse effect on the Issuer’s business, reputation, financial condition and results of operations or prospects. The fulfilment of current and future capital requirements, as set out by the European Commission, the European Council and the European Parliament (together, the “**European Authorities**”), by Banco de Portugal and by the ECB has had, and could further have, a significant impact on the Issuer’s capital structure and financial position.

The CRR has been directly applicable in European States since 1 January 2014 and includes provisions regarding, for instance, own funds requirements, minimum capital ratios and liquidity ratios. These measures may have a significant impact on the Issuer’s capital and on its respective assets and liabilities management.

Banks operating in Portugal are obliged to comply with several capital ratios, including a minimum Common Equity Tier 1 (“**CET1**”) ratio of 4.5 per cent., a minimum Tier 1 ratio of 6 per cent. and a minimum total capital ratio of 8 per cent., in each case of risk-weighted assets (“**RWAs**”).

The capital adequacy requirements currently applicable, or in the future applicable, to the Issuer may limit its ability to advance loans to customers and may require it to issue additional equity capital or subordinated debt in the future, which are expensive sources of funding.

CRD V and CRR II introduce a new approach for the measurement of counterparty credit risk, the implementation of the NSFR, a changed framework for interest rate risk and changes to the treatment of trading book exposures, in addition to other amendments relating to capital, liquidity, leverage, remuneration and the EU’s recovery and resolution framework. Most of the provisions of CRD V are required to be transposed into national law by 28 December 2020, with application immediately thereafter. CRR II will apply from 28 June 2021 (subject to certain earlier applications and exemptions, such as those relating to the transitional arrangements for IFRS 9 and the characteristics of new regulatory capital instruments). The November 2016 Proposals also include phase-in arrangements for the regulatory capital impact of IFRS 9 and the ongoing interaction of IFRS 9 with the regulatory framework. The impact of changes to the IFRS, such as IFRS 9, cannot always be accurately quantified in advance, but the changes in the fair values and impairments of financial instruments resulting from the above could have a material adverse effect on the Issuer’s business, reputation, financial condition, results of operations and, if such changes are significant, also on its prospects. The adoption of IFRS 9 may require an increase in the level of impairments on their earlier recognition.

Furthermore, under the CRD IV, institutions may be subject to restrictions in relation to making “discretionary payments” (which are defined broadly as payments relating to CET1 capital, variable remuneration and payments on additional tier 1 instruments) in certain circumstances, including a shortfall in meeting its capital buffer requirements or, following implementation of the Commission Proposals (as defined below), a failure to meet the minimum requirement for own funds and eligible liabilities. If the Issuer’s ability to make discretionary payments becomes subject to such restrictions, this could have an impact on its ability to raise, and the cost of, any form of capital or funding (including but not limited to Subordinated Notes and Senior Non-Preferred Notes).

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain of those features:

Risks relating to Floating Rate Notes

Floating Rate Notes (as defined in "*Terms and Conditions of the Notes*") bear a variable interest income. A holder of a Floating Rate Note 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 Notes in advance. Interest on Floating Rate Notes may be payable plus or minus a margin.

Risks relating to Reset Notes

The interest rate on Reset Notes (as defined in "*Terms and Conditions of the Notes*") will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes.

Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date and with such sum converted as described in the definition of First Reset Rate of Interest or Subsequent Reset Rate of Interest (as applicable) (each such interest rate, a "**Subsequent Reset Rate**"). The Subsequent Reset Rate for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, the spread on such Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

Notes subject to optional redemption by the Issuer

Notes may, subject as provided in the Conditions, be redeemed before their Maturity Date (i) at any time for taxation reasons in accordance with Condition 5(c); (ii) if Call Option is specified in the applicable Final Terms, at the sole discretion of the Issuer on any Optional Redemption Date; or (iii) in respect of Subordinated Notes only, at any time following the occurrence of a Capital Event, in each case at their Early Redemption Amount or Optional Redemption Amount, as applicable, together with interest accrued (but unpaid) to the date fixed for redemption in accordance with the Conditions. An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect, or is perceived to be able to elect, to redeem Notes, the market value of such Notes 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 Notes when its cost of borrowing is lower than the interest rate on the Notes. 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 Notes 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.

The Subordinated Notes, the Senior Non Preferred Notes and, to the extent so specified in the relevant Final Terms, the Ordinary Senior Notes, provide for limited events of default. Noteholders may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under the RGICSF

Noteholders have a very limited ability to accelerate the maturity of their Subordinated Notes, Senior Non Preferred Notes and, to the extent so specified in the relevant Final Terms, the Ordinary Senior Notes. The terms and conditions of the Subordinated Notes, the Senior Non Preferred Notes and, to the extent so specified in the relevant Final Terms, the Ordinary Senior Notes do not provide for any events of default, except in the case that (i) an order is made by any competent court commencing bankruptcy or insolvency proceedings against the Issuer or for its winding up or dissolution, or the Issuer institutes such proceedings or (ii) an order is made or an effective resolution is passed by the Issuer's shareholders for the winding-up of the Issuer.

As mentioned above, the Issuer may be subject to a procedure of early intervention or resolution pursuant to the RGICSF following the implementation of the BRRD. The adoption of any early intervention or resolution procedure shall not itself constitute an event of default or entitle any counterparty of the Issuer to exercise any rights it may otherwise have in respect thereof. Any provision providing for such rights shall further be deemed not to apply, although this does not limit the ability of a counterparty to declare any event of default and exercise its rights accordingly where an event of default arises either before or after the exercise of any such procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to the RGICSF.

Any enforcement by a Noteholder of its rights under the Notes upon the occurrence of an event of default following the adoption of any early intervention or any resolution procedure will, therefore, be subject to the relevant provisions of the BRRD in relation to the exercise of the relevant measures and powers pursuant to such procedure. Any claims on the occurrence of an event of default will consequently be limited by the application of any measures pursuant to the provisions of the RGICSF. There can be no assurance that the taking of any such action would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and the enforcement by a Noteholders of any rights it may otherwise have on the occurrence of any event of default may be limited in these circumstances.

The Subordinated Notes, Senior Non Preferred Notes and/or certain Ordinary Senior Notes may be redeemed prior to maturity upon a Capital Event or upon the occurrence of an MREL Event, as applicable

The Issuer may, at its option, redeem all, but not some only, of the Subordinated Notes, or Senior Non Preferred Notes and/or certain Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as "Applicable" in the relevant Final Terms, at any time at their Early Redemption Amount, together with accrued but unpaid interest up to (but excluding) the date of redemption, upon a Capital Event (in the case of Subordinated Notes only) or following the occurrence of an MREL Event (in the case of Senior Non Preferred Notes and/or certain Ordinary Senior Notes).

The early redemption of the Subordinated Notes, the Senior Non Preferred Notes or the Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as "Applicable" in the relevant Final Terms upon a Capital Event (in the case of Subordinated Notes) or upon an MREL Event (in the case of Senior Non Preferred Notes or certain Ordinary Senior Notes), as applicable, will be subject to the prior consent of the Competent Authority (as defined in "*Terms and Conditions of the Notes*") if and as required therefor under Applicable Banking Regulations (as defined in "*Terms and Conditions of the Notes*") and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

It is not possible to predict whether or not Senior Non Preferred Notes or certain Ordinary Senior Notes will or may qualify as MREL-Eligible Instruments (see "*–The qualification of Senior Non Preferred Notes and certain Ordinary Senior Notes as MREL-Eligible Instruments is subject to uncertainty*") or if any further change in the laws or regulations of Portugal, the Applicable Banking Regulations, the MREL Requirements or in the application or official interpretation thereof will occur and whether such change may lead to the circumstances in which the Issuer is able to elect to redeem such Senior Non Preferred Notes or Ordinary Senior Notes, and if so whether or not the Issuer will elect to exercise such option to redeem such Notes or if any prior consent of the Competent Authority, if required, will be given.

Early redemption features (including any redemption of the Notes pursuant to Condition 5(e) (*Redemption due to a Capital Event*) or pursuant to Condition 5(f) (*Redemption due to an MREL Event*) are likely to limit the market value of the Notes. During any period when the Issuer may redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period or at any time where there is any actual increase in the likelihood that the Issuer will be able to redeem the Notes early. The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. 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 Notes 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.

The qualification of Senior Non Preferred Notes and certain Ordinary Senior Notes as MREL-Eligible Instruments is subject to uncertainty

The Senior Non Preferred Notes and certain Ordinary Senior Notes may be intended to be MREL-Eligible Instruments (as defined in the Conditions) under the MREL Requirements. However, there is uncertainty regarding how those regulations, once enacted, are to be interpreted and applied and the Issuer cannot provide any assurance that the Senior Non Preferred Notes and certain Ordinary Senior Notes will or may be (or thereafter remain) MREL-Eligible Instruments.

If for any reasons the Senior Non Preferred Notes and the Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as "Applicable" in the relevant Final Terms are not MREL-Eligible Instruments or if they initially are MREL-Eligible Instruments and subsequently become ineligible due to a change in Portuguese law or the MREL Requirements, then an MREL Event (as defined in the Conditions) will occur, with the consequences indicated in the Conditions. See "*— The Subordinated Notes, Senior Non Preferred Notes and certain Ordinary Senior Notes may be redeemed prior to maturity upon a Capital Event or upon the occurrence of an MREL Event*".

Notes issued at a substantial discount or premium

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

The regulation and reform of "benchmarks" may adversely affect the value of Floating Rate Notes or Reset Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" (such as a Reference Rate) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Floating Rate Notes or Reset Notes linked to or referencing such a "benchmark". The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has been applied from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Floating Rate Notes or Reset Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the relevant "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant "benchmark".

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Floating Rate Notes or Reset Notes linked to or referencing a "benchmark".

The value of and return on any Notes linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks

The Issuer may issue Floating Rate Notes, the interest rate on which fluctuates according to fluctuations in a specified interest rate benchmark. Reference rates and indices, including interest rate benchmarks, such as LIBOR, which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark.

(i) Temporary unavailability of the Relevant Screen Page

Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent,

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date or Reset Determination Date before the Original Reference Rate was discontinued. Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued, may adversely affect the value of, and return on, the Floating Rate Notes or Reset Notes.

(ii) Benchmark Events

Benchmark Events include (amongst other events) permanent discontinuation of an Original Reference Rate. If a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser. The

Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate. If the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine a Successor Rate or Alternative Rate, such Issuer may determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser or the Issuer, as the case may be, the Conditions provide that the Issuer may vary the Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser or the Issuer, as the case may be, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser or the Issuer, as the case may be, and applied to such Successor Rate or Alternative Rate. If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread.

The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest and the application of any Adjustment Spread may result in Notes initially linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

(iii) Potential for a fixed rate return

The Issuer may be unable to appoint an Independent Adviser or each of the Independent Adviser and the Issuer may not be able to determine a Successor Rate or Alternative Rate in accordance with the Conditions.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner or the Independent Adviser (failing which, the Issuer) is unable to determine a Successor Rate or Alternative Rate before the next Interest Determination Date or Reset Determination Date, as applicable, the Rate of Interest for the next succeeding Interest Accrual Period or Reset Period, respectively, will be the Rate of Interest applicable as at the last preceding Interest Determination Date or Reset Determination Date, as applicable, before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date or Reset Determination Date, as applicable, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or the Independent Adviser (failing which, the Issuer) has failed to determine a Successor Rate or Alternative Rate in respect of any given Interest Accrual Period or Reset Period, as applicable, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date or Reset Determination Date, respectively, and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods or Reset Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date or Reset Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

lf the Issuer is unable to appoint an Independent Adviser or the Independent Adviser (and the Issuer, as the case may be) fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark

Event, will continue to apply to maturity. Further, the Conditions provide that no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes:

(A) in the case of Subordinated Notes, as Tier 2 Capital; and/or

(B) in the case of Senior Notes, as MREL-Eligible Instruments for the purposes of the Applicable Banking Regulations,

or, in the case of Ordinary Senior Notes and Senior Non Preferred Notes only, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to result in the Competent Authority treating a future Interest Payment Date as the effective maturity of the Notes, rather than the relevant Maturity Date for the purposes of qualification of the Notes as MREL-Eligible Instruments of the Issuer. This also risks the Floating Rate Notes in effect becoming Fixed Rate Notes.

(iv) ISDA Determination

Where ISDA determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an “IBOR” Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return of the Floating Rate Notes.

Holders of the Subordinated Notes will have limited remedies

The sole remedy against the Issuer available to any Noteholder for recovery of amounts owing in respect of any payment of principal or interest in respect of any Subordinated Notes will be the institution of proceedings for the winding up of the Issuer and/or proving in any winding up of the Issuer. As such, the remedies available to holders of Subordinated Notes are more limited than those typically available to Senior Creditors or holders of senior-ranking securities, including Senior Notes, which may make enforcement more difficult.

Limitation on gross-up obligation under the Subordinated Notes and Senior Non Preferred Notes

The Issuer’s obligation under Condition 7 to pay additional amounts in the event of any withholding or deduction in respect of Portuguese taxes on any payments under the terms of the Subordinated Notes or the Senior Non Preferred Notes applies only to payments of interest and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Subordinated Notes or the Senior Non Preferred Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Subordinated Notes or the Senior Non Preferred Notes, Noteholders may receive less than the full amount of principal due under the Subordinated Notes or the Senior Non Preferred Notes upon redemption, and the market value of the Subordinated Notes or Senior Non Preferred Notes may be adversely affected.

Unless otherwise specified in the relevant Final Terms, the Terms and Conditions of the Notes contain a waiver of set-off, netting and compensation rights

Subject to applicable law, no holder of a Subordinated Note, a Senior Non Preferred Note or an Ordinary Senior Note (unless “Ordinary Senior Notes: Waiver of Set Off” is specified in the relevant Final Terms as “Not Applicable”) may exercise or claim any set-off, netting or compensation right in respect of any amount owned by it to the Issuer arising under or in connection with the Subordinated Note, the Senior Non Preferred Note or the Ordinary Senior Note, as the case may be, and each holder of a Subordinated Note, a Senior Non Preferred Note or an Ordinary Senior Note (unless

"Ordinary Senior Note Waiver of Set Off" is specified in the relevant Final Terms as Not Applicable), as the case may be, shall, by virtue of its subscription, purchase or holding of any such Note, be deemed to have waived all such rights of set off.

The Notes may be subject to substitution and/or variation without Noteholder consent

Subject as provided herein, in particular to the provisions of Condition 5(j), if a Capital Event or a MREL Event occurs, the Issuer may (subject to (a) the Issuer giving not less than 30 nor more than 60 calendar days' notice to the Noteholders and the Agents in accordance with Condition 12, which notice shall be irrevocable (i) that the relevant securities will be Compliant Securities and (ii) that such securities will not have terms materially less favourable to Noteholders than the terms of the relevant Notes) at its option and without the consent or approval of the Noteholders, elect either (i) to substitute all (but not some only) of the relevant Notes for, or (ii) vary the terms of the relevant Notes such that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 5(j)). While Compliant Securities generally must contain terms that are materially no less favourable to Noteholders as the original terms of the relevant Notes, there can be no assurance that the terms of any Compliant Securities will be viewed by the market as equally favourable, or that the Compliant Securities will trade at prices that are equal to the prices at which the relevant Notes would have traded on the basis of their original terms.

Risk relating to Subordinated Notes and Senior Non Preferred Notes

The risk factors relating to Subordinated Notes and Senior Non Preferred Notes described below should be read together with the general risk factors relating to the Notes described above.

An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency or resolution

The Issuer's obligations under the Subordinated Notes (as defined in the relevant Conditions) will be unsecured and subordinated obligations of the Issuer and will rank junior to all unsubordinated obligations of the Issuer (including any Senior Non Preferred Liabilities (as defined in the Conditions)). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a greater risk that an investor in Subordinated Notes will lose all or some of its investment should the Issuer become (i) subject to resolution under the BRRD (as implemented in Portugal through Law No. 23-A/2015 of 26 March 2015 (which amended the RGICSF)) and the Subordinated Notes become subject to the application of the Portuguese Bail-In Power, as defined below, (and, in case they constitute Tier 2 instruments, the Non-viability Loss Absorption Measure (as defined below)) or (ii) insolvent.

The Portuguese Bail-in Power is any statutory write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the Republic of Portugal, in effect and applicable to the Issuer, including the laws, regulations, rules or requirements relating to (i) the transposition of the BRRD (including, but not limited to, Law No. 23-A/2015 of 26 March 2015, which amended the RGICSF), (ii) the SRM Regulation, and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of credit institutions or investment firms (or other affiliate of such entities) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of such credit institutions or investment firms or any other person (or suspended for a temporary period).

In the case of any exercise of the Portuguese Bail-In Power by the Relevant Resolution Authority, the sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD provides for the principal amount of Tier 2 instruments (such as the Subordinated Notes if they qualify as such as it is expected) to be written-down or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 instruments (Instruments) in accordance with the hierarchy of claims provided in the applicable insolvency legislation and for the latter to be written-down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any other eligible liabilities (such as the Ordinary Senior Notes and Senior Non Preferred Notes), in accordance with the hierarchy of claims provided in the applicable insolvency legislation. Subordinated Notes which constitute Tier 2 instruments may be subject to the Non-viability Loss Absorption Measure (as defined below), which may be imposed prior to or in combination with any exercise of the Portuguese Bail-In Power Measure.

The RGICSF provides for the resolution authorities having the power to permanently write down, or convert into equity (common equity tier 1 instruments), capital instruments such as Tier 2 instruments and Additional Tier 1 capital instruments at the point of non-viability of an institution or such institution's group and before any other resolution action has been taken (the "**Non-viability Loss Absorption Measure**").

An investor in Senior Non Preferred Notes assumes an enhanced risk of loss compared to creditors of the Issuer's Senior Higher Priority Liabilities

The Senior Non Preferred Notes are senior non preferred obligations and are junior to the Issuer's unsubordinated obligations including the Ordinary Senior Notes and deposits which provide a preferential claim over the claim of holders of Senior Non Preferred Notes and Ordinary Senior Notes.

The Senior Non Preferred Notes constitute direct, unconditional, unsubordinated and unsecured senior non preferred obligations of the Issuer in accordance with Article 8-A of Decree Law No. 199/2006 of 25 October 2006, as amended or superseded (including by Law 23/2019 of 13 March 2019, which implemented Directive 2017/2399 of 12 December 2017 ("**Article 8-A**"). Upon the insolvency of the Issuer, the payment obligations of the Issuer in respect of rights of the holders of any Senior Non Preferred Notes rank, subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), (a) *pari passu* among themselves and with any Senior Non Preferred Liabilities (as defined in the Conditions), (b) junior to any present or future claims of any Senior Higher Priority Liabilities (as defined in the Conditions) and, accordingly, upon the insolvency of the Issuer, the claims in respect of claims of depositors of the Issuer and the Senior Non Preferred Notes will be met after payment in full of the claims of the Senior Higher Priority Liabilities, and (c) senior to any present and future subordinated obligations of the Issuer.

The Issuer's Senior Higher Priority Liabilities would include, among other liabilities, its obligations in respect of unsecured derivatives and other unsecured financial contracts and its unsubordinated and unsecured debt securities other than the Senior Non Preferred Liabilities. Law No. 23/2019 of 13 March 2019 confers a preferential claim for generally all bank deposits (including all corporate bank deposits) over both Senior Non Preferred Notes and Ordinary Senior Notes. If the Issuer were wound up, liquidated or dissolved, the liquidator would apply the assets which are available to satisfy all claims in respect of its unsubordinated liabilities, first to satisfy claims of all other creditors (including depositors and secured creditors in respect of their security) ranking ahead of holders of Senior Higher Priority Liabilities, and then to satisfy claims of the Senior Higher Priority Liabilities and then the Senior Non Preferred Notes (and other Senior Non Preferred Liabilities). If the Issuer does not have sufficient assets to settle the claims of higher ranking creditors (including depositors) in full, the claims of the Noteholders under Notes will not be satisfied. Noteholders will share equally in any distribution of assets available to satisfy all claims in respect of equal-ranking liabilities if the Issuer does not have sufficient funds to make full payment to all of them.

In addition, if the Issuer enters into resolution, its liabilities under the Notes may be subject to bail-in, meaning potential write-down or conversion into equity securities or other securities. The sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD provides for claims to be written-down or converted into equity in accordance with the hierarchy of claims provided in the applicable insolvency legislation. Because the Senior Non Preferred Notes are Senior Non Preferred Liabilities, the Issuer expects them to be written down or converted in full after any subordinated obligations of the Issuer and before any of the Issuer's Senior Higher Priority Liabilities are written down or converted.

As a consequence, holders of the Senior Non Preferred Notes would bear significantly more risk than creditors of the Issuer's Senior Higher Priority Liabilities and could lose all or a significant part of their investment if the Issuer were to become (i) subject to resolution under the BRRD and the Senior Non Preferred Notes were to become subject to the application of the Portuguese Bail-In Power or (ii) insolvent.

Senior Non Preferred Notes are new types of instruments for which there is little trading history

On 14 March 2019, Law No. 23/2019 of 13 March 2019 entered into force. This legislation implements Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 and provides for the legal recognition of unsubordinated and unsecured senior non preferred obligations in Portugal. It also confers a preferential claim to generally all bank deposits vis-à-vis senior unsecured debt (including the Senior Non Preferred Notes and the Ordinary Senior Notes). There is little trading history for senior non preferred securities of Portuguese financial institutions. Market participants, including credit rating agencies, are in the initial stages of evaluating the risks associated with senior non preferred securities. The credit ratings assigned to senior non preferred securities such as the Senior Non Preferred Notes may change as the rating agencies refine their approaches, and the value of such securities may be particularly volatile as the market becomes more familiar with them. It is possible that, over time, the credit ratings and value of senior non preferred securities such as the Senior Non Preferred Notes will be lower than those expected by investors at the time of issuance of the Senior Non Preferred Notes. If so, Noteholders may incur losses in respect of their investments in the Senior Non Preferred Notes.

Risks related to the market generally

Set out below is a brief description of certain market risks, including macroeconomic risk, liquidity risk, exchange rate risk, interest rate risk and credit risk that may have a material adverse effect on the business, reputation, financial condition and results of operation or prospects of Banco Montepio.

The impact of the financial and credit crisis

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

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

These factors could have an adverse effect on the business, reputation, financial condition and results of operation or prospects of Banco Montepio.

United Kingdom’s Exit from the European Union

On 23 June 2016, the United Kingdom (the “**UK**”) held the UK referendum, the result of which was a vote to leave the EU. This decision has created significant uncertainty within the UK and regarding its relationship with the EU. On 29 March 2017, the UK served notice, in accordance with article 50 of the Treaty on the European Union, of its intention to withdraw from the EU. This notification of withdrawal started a two-year process during which the terms of the UK’s exit was negotiated and this period has since been extended and may be extended further under certain circumstances.

The negotiation process is ongoing and there continues to be a great amount of uncertainty concerning the specific terms upon which the UK will withdraw from the EU and indeed whether the UK will withdraw at all. As at the date of this Prospectus, there is an increasing risk that the United Kingdom may exit the EU without any agreement regarding crucial matters as trade in goods and services, security or immigration cooperation, known colloquially as a ‘Hard Brexit’. If the so-called ‘Hard-Brexit’ scenario materialises, implications for the European financial sector could be acute, especially in terms of access to financial market infrastructures, the ability to perform contractual obligations under existing contracts, access to funding markets, and the use of English law in issuances of MREL eligible instruments. The consequences of Brexit are uncertain with respect to the EU integration process, the future relationship between the UK and the EU, and the impact on European economies and businesses. The Portuguese economy could be adversely affected given the importance of the United Kingdom as an export market and as a source of tourism. Given the current uncertainties and range of possible outcomes, no assurances can be given as to the impact of any of the issues described above and no assurances can be given that such issues will not adversely affect the rights of the Noteholders, the market value of the Notes and/or the ability of Banco Montepio to satisfy its obligations under the Notes.

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

Economic activity in Portugal

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

A weaker international economic outlook, together with high geopolitical uncertainty and trade tensions, pose additional challenges to the stability of the global financial system and to the Portuguese economy. The uncertainty and risks associated with the world economy’s growth have increased in recent months, in particular, due to international trade tensions (e.g. US and China; US and EU), but also due to the instability surrounding the UK’s exit from the EU (Brexit) and to the continued political turmoil in Italy. Besides, a sharper slowdown in China’s economic activity (despite higher-than-estimated developments in early 2019) and the still high sensitivity of some emerging markets to changes in risk premia may accentuate downside risks to global economic activity.

The risks identified may interact together and, should they materialise, mutually enhance one another, having a negative impact on (i) the Issuer’s cost of funding and its ability to issue Notes under the Programme; (ii) the yield of Portuguese Government bonds, impacting the capital position of the Issuer; and (iii) the Portuguese economy, which, in turn, would have a negative impact on the business of the Issuer.

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

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

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

Furthermore, the reduction in the profitability of companies and the increase in corporate and personal insolvencies have had, and may continue to have, a negative influence on the ability of the Issuer's clients to pay back loans, and, consequently, could cause an increase in the ratio of overdue loans, reflecting a deterioration of the Issuer's quality of assets.

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

Banking Markets and Competition

Over the last few years, owing to the FAP, 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, the decline in the reliance on wholesale funding supported on other stable funding sources, particularly customer deposits, allowing Portuguese banks to reduce the dependence on international financial markets.

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

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

The sharp decline in the Portuguese banking system's profitability between 2012 and 2014 was attributable to the decrease in the results of financial operations associated with an increase in impairments and provisions for non-credit assets.

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

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

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

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

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

In addition, rating agencies may assign unsolicited ratings to the Notes. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Notes, which could adversely affect the market value and liquidity of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). 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, subject to transitional provisions that apply in certain circumstances).

The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

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

Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal considerations may restrict certain investments

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

Relationship with the Dealers

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

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification and waiver

The Terms and Conditions of the Notes and the Instrument contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Agent and the Issuer may agree, without the consent of the Noteholders, to make any modification to the provisions of the Conditions or the Instrument which: (i) is not prejudicial to the interests of the Noteholders; (ii) is of a formal, minor or technical nature; (iii) is made to correct a manifest or proven error; or (iv) is to comply with mandatory provisions of any applicable law or regulation.

Change of law

The Terms and Conditions of the Notes and any non-contractual obligations arising out of or in connection with them are governed by English law, save that Conditions 2(b) and 2(c) and the provisions relating to the form (*representação formal*) and transfer of the Notes, the creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, Portuguese law, in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or Portuguese law or administrative practice in either of those jurisdictions after the date of issue of the relevant Notes.

The Notes are unsecured and therefore subject to the resolution regime.

The Notes are unsecured and therefore subject to the resolution regime, including the bail-in tool (see further "*Legislation on Bank Recovery and Resolution*" above). The impact on investors, in a resolution scenario, depends crucially on the rank of the liability in the resolution creditor hierarchy. In the event of resolution, *inter alia*: (i) the outstanding amount of the Notes may be reduced to zero or the Notes may be converted into ordinary shares of the

Issuer or other instruments of ownership; (ii) a transfer of assets (e.g. to a bridge bank) or a sale of business may limit the capacity of the Issuer to meet its repayment obligations; and (iii) the maturity of any Notes or the interest rate under such Notes can be altered and the payments may be suspended for a certain period. When a resolution measure is applied no shareholder or creditor of the institution (including the Noteholders) subject to resolution may have losses greater than it would have if the institution had entered into liquidation. Noteholders may have a right to compensation if the treatment they receive in resolution is less favourable than the treatment they would have received under normal liquidation proceedings ("no creditor worse off"). This assessment must be based on an independent valuation of the firm. Completion of this assessment, as well as payment of any potential consideration, may be delayed and occur considerably later than contractual payment dates.

The taking of any such actions could adversely affect the rights of Noteholders, including the write-down or conversion (in whole or in part) of their Notes. Any such actions or the perceived likelihood of any such actions being taken may adversely impact the price or value of their investment in the Notes.

Risks related to procedures for collection of Noteholders' details

It is expected that the direct registering entities *(entidades registadoras directas),* the participants and the clearing systems will follow certain procedures to facilitate the collection from the effective beneficiary of the Notes (the "**beneficial owner**") of the information referred to in "*Risks related to withholding tax*" above required to comply with the procedures and certifications required by Decree-Law no. 193/2005. Under Decree-Law no. 193/2005, the obligation of collecting from the beneficiaries proof of their non-Portuguese resident status and of the fulfilment of the other requirements for the exemption rests with the direct registering entities (*entidades registadoras directas*), the participants and the entities managing the international clearing systems. Details of those procedures are set out in "*Taxation – Special Debt securities tax regime*". Such procedures may be revised from time to time in accordance with applicable Portuguese laws and regulations, further clarification from the Portuguese tax authorities, regarding such laws and regulations, and the operational procedures of the clearing systems. While the Notes are registered by Interbolsa. Beneficiaries must comply with such procedures in order to receive payments under the Notes free of any withholding, if applicable. Beneficiaries must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuer, the Arranger, the Dealers, the agents or the clearing systems assume any responsibility therefor.

Reliance upon Interbolsa procedures

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

(a) Form and Transfer of the Notes

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

Notes 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 Notes 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 Notes and their beneficial interests will be made through Interbolsa.

(b) Payments on Notes

All payments on Notes (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 Banco de Portugal to the accounts of the Affiliate Members of Interbolsa who hold control accounts on behalf of the Noteholders 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 Noteholders must rely on the procedures of Interbolsa to receive payment under the Notes. The records relating to payments made in respect of beneficial interests in the Notes are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

(c) Risks related to withholding tax applicable on the Notes

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 Notes, and capital gains derived from a sale or other disposition of such Bonds, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with.

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

Failure to comply with these procedures and certifications will result in the application of the Portuguese domestic withholding rate (*see* "*Taxation – General tax regime on debt securities*"). 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 Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuer, the Arranger, the Dealers, the agents or the clearing systems assume any responsibility therefore.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with:

1. the unaudited interim financial statements of Banco Montepio for the six month period ended 30 June 2019 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/banco-montepio-first-half-report-2019.pdf).

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR LIMITED REVIEW REPORT FOR SIX MONTH PERIOD ENDED 30 JUNE 2019

2. the annual report and audited consolidated annual financial statements of Banco Montepio for the financial year ended 31 December 2018, together with the notes and the audit report thereon (the "**Annual Report 2018**") (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/banco-montepio-annual-report-2018.pdf), including the information set out at the following pages in particular:

2018 CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the Prospectus Regulation; and

3. the annual report and audited consolidated annual financial statements of Banco Montepio for the financial year ended 31 December 2017, together with the notes and the audit report thereon (the "**Annual Report 2017**") (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2017.pdf), including the information set out at the following pages in particular:

2017 CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT

2017 CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the Prospectus Regulation.

The financial statements of the Issuer incorporated by reference have been prepared in accordance with IFRS.

The documents listed above have been previously published or are published simultaneously with this Base Prospectus and have been filed with the CSSF. Such documents shall be incorporated by reference in, and form part of, this Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein 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 herein by reference may be obtained free of charge at the specified offices of the Issuer and the Agent and will also be available to view on the website of the Luxembourg Stock Exchange *(www.bourse.lu).*

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus, unless they are incorporated separately elsewhere in the Base Prospectus, shall not form part of this Base Prospectus.

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 Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

GENERAL DESCRIPTION OF THE PROGRAMME

The following general description of the Programme is qualified in its entirety by the remainder of this Base Prospectus.

Issuer	Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("**Banco Montepio**" and the "**Issuer**").
Issuer Legal Entity Identifier (LEI)	2138004FIUXU3B2MR537
Description	Euro Medium Term Note Programme.
Size	Up to €6,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger	Merrill Lynch International
Dealers	BNP Paribas BofA Securities Europe SA Caixa Económica Montepio Geral, caixa económica bancária, S.A. Citigroup Global Markets Europe AG Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main ING Bank N.V. J.P. Morgan Securities plc Merrill Lynch International Montepio Investimento S.A. Natixis NatWest Markets N.V. NatWest Markets Plc Société Générale UniCredit Bank AG
	The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Agent	Caixa Económica Montepio Geral, caixa económica bancária, S.A.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in

	respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount as specified in the relevant Final Terms.
Form of Notes	The Notes are issued in book-entry form (*escriturais*) and registered form (*nominativas*) that will be integrated in and held through Interbolsa, as management entity of the *Central de Valores Mobiliários*. The terms and conditions of each series of Notes shall be the terms and conditions set out in this Base Prospectus, as supplemented and/or completed in the relevant Final Terms. The Notes are constituted by a deed poll given by Banco Montepio in favour of the holders of the Notes dated 31 October 2019 (the "**Instrument**").
Clearing Systems	Interbolsa, Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Agent and the relevant Dealer.
Currencies	Notes may only be issued in EUR ("**euro**"), USD ("**United States Dollar**"), GBP ("**British Pound Sterling**"), JPY ("**Japanese Yen**"), CHF ("**Swiss Franc**"), AUD ("**Australian Dollar**") and CAD ("**Canadian Dollar**"), or any other currency as Interbolsa accepts for registration and clearing securities.
Maturities	Subject to compliance with all relevant laws, regulations and directives and as permitted by the relevant central bank (or equivalent body) and subject as provided below, any maturity as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the relevant 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) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Subordinated Notes will have a minimum maturity of at least five years or as otherwise permitted in accordance with Applicable Banking Regulations (as defined in the Terms and Conditions of the Notes) from time to time. Notes shall not be issued with a maturity of less than 398 (three hundred and ninety-eight) days or such minimum or maximum maturity as may be permitted or required from time to time by Applicable Banking Regulations. According to the Luxembourg Act relating to prospectuses for securities (the "**Luxembourg Act**"), the CSSF is not competent to approve prospectuses for the listing of money market instruments having a maturity at issue of less than 12 months and which also comply with the definition of securities in the Luxembourg Act.
Specified Denomination	Notes will be in such denominations as may be specified in the

relevant Final Terms, save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in British Pound Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") will have a minimum specified denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Reset Notes

Reset Notes will, in respect of an initial period, bear interest at the initial fixed rate of interest specified in the relevant Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the relevant Final Terms by reference to a mid-market swap rate for the relevant Specified Currency, and for a period equal to the reset period, as adjusted for any applicable margin, in each case as may be specified in the relevant Final Terms and as further described in the Terms and Conditions. Such interest will be payable in arrear on the Interest Payment Date(s) specified in the relevant Final Terms or determined pursuant to the Terms and Conditions.

Floating Rate Notes

Floating Rate Notes will bear interest determined separately for each Series as follows:

(i) 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.; or

(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period.

Redemption

The relevant Final Terms will specify the redemption amounts payable.

	Unless permitted by then current laws and regulations, Notes (including Notes denominated in British Pound Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies). Any early redemption of a Subordinated Note will be subject to the prior consent of the Relevant Authority. Unless previously redeemed, purchased and cancelled, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount, which shall be at least equal to its nominal amount. Early redemption will be permitted for taxation reasons or, in the case of Ordinary Senior Notes if so specified in the relevant Final Terms, following an Event of Default or, in the case of Senior Non Preferred Notes or Ordinary Senior Notes if so specified in the relevant Final Terms, upon the occurrence of a MREL Event or, in the case of Subordinated Notes, upon a Capital Event, but otherwise early redemption will be permitted only to the extent specified in the relevant Final Terms. Any early redemption of Subordinated Notes, Senior Non Preferred Notes or Ordinary Senior Notes eligible as Tier 2 Capital or MREL-Eligible Instruments, as applicable, will be subject to the prior consent of the competent authorities and/or relevant resolution authorities, to the extent required, in accordance with Applicable Banking Regulations.
Benchmark Discontinuation	In the case of Reset Notes or Floating Rate Notes where Screen Rate Determination is specified in the relevant Final Terms as being the manner in which the Rate(s) of Interest is/are to be determined, on the occurrence of a Benchmark Event, the Issuer shall, as soon as reasonably practicable, use its reasonable endeavours to appoint an Independent Adviser who may determine or, if such Independent Adviser fails to make any such determination or the Issuer is unable to appoint an Independent Adviser, the Issuer may determine, a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread and any Benchmark Amendments in accordance with Condition 4(j).
Optional Redemption	The relevant Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of the Senior Notes	The Senior Notes may be either Ordinary Senior Notes or Senior Non Preferred Notes. Ordinary Senior Notes will constitute direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated

obligations of the Issuer and will rank at least *pari passu* among themselves and with any other Senior Higher Priority Liabilities, and senior to all Senior Non Preferred Liabilities and all present and future subordinated obligations of the Issuer, (including, for the avoidance of doubt, all Subordinated Notes).

Senior Non Preferred Notes will constitute direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and with any other Senior Non Preferred Liabilities (as defined in the Terms and Conditions of the Notes), junior to any present or future claims of depositors of the Issuer and any Senior Higher Priority Liabilities (as defined in the Terms and Conditions of the Notes) (and accordingly, upon the insolvency of the Issuer, the claims in respect of Senior Non Preferred Notes will be met after payment in full of the claims of depositors of the Issuer and Senior Higher Priority Liabilities) in accordance with Article 8-A (as defined in the Terms and Conditions of the Notes) and senior to all present and future subordinated obligations of the Issuer in accordance with Article 8-A.

Status of the Subordinated Notes

The Subordinated Notes will constitute direct and unsecured as subordinated under Condition 2(b), and will rank *pari passu* among themselves. The claims of the holders of the Subordinated Notes will, in the event of the bankruptcy or the winding up of the Issuer (to the extent permitted by Portuguese law), be subordinated in right of payment in the manner provided in Condition 2(b) and the Instrument to the claims of all Senior Creditors of that Issuer including claims of depositors, to the claims of all Senior Creditors of the Issuer but shall rank (a) at least *pari passu* with the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer and all obligations of the Issuer which rank, or are expressed to rank, *pari passu* therewith and (b) in priority to any present or future (1) the claims of holders of all share capital of the Issuer, (2) the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital of the Issuer, (3) the claims of holders of all undated or perpetual subordinated obligations of the Issuer and (4) the claims of holders of all other obligations of the Issuer which rank, or are expressed to rank, junior to the Subordinated Notes or Tier 2 Capital of the Issuer.

Substitution and Variation

Where "Capital Event – Substitution and Variation" or "MREL Event – Substitution and Variation", as the case may be, is specified as "Applicable" in the relevant Final Terms and a Capital Event or an MREL Event, as the case may be, has occurred and is continuing, or if required to ensure the effectiveness and enforceability of Condition 15, the Issuer may, subject to the provisions of Condition 5(k), either substitute all (but not some only) of the relevant Notes for, or vary the terms of the relevant Notes such that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 5(j)).

Negative Pledge

Applicable only to Ordinary Senior Notes unless "Ordinary Senior Notes: Negative Pledge" is expressly specified to be "Not Applicable" in the relevant Final Terms. See "*Terms and Conditions of the Notes — Negative Pledge in relation to certain of the Ordinary Senior Notes*".

Cross Default

Applicable only to Ordinary Senior Notes unless "Ordinary Senior Notes: Cross-default" is expressly specified to be "Not Applicable" in the relevant Final Terms. See "*Terms and Conditions of the Notes — Events of Default*".

Limited Rights of Acceleration

A Noteholder's rights to accelerate Subordinated Notes, Senior Non Preferred Notes and Ordinary Senior Notes where "Ordinary Senior Notes: Events of Default" Condition 10(a) is expressly specified as "Not Applicable" in the relevant Final Terms are limited to insolvency or winding up type events only. See "*Terms and Conditions of the Notes — Events of Default*".

Ratings

The Programme has been rated: (P)Caa1 (senior unsecured) / (P)Caa1 (senior non-preferred) / (P)Caa1 (subordinated) / (P)Caa2 (junior subordinated) / NP (short-term) by Moody's Investor Service España, S.A. ("Moody's"); B- (senior unsecured) / B- (senior non-preferred) / B (short-term) by Fitch Ratings Ltd. ("Fitch") and BB (senior unsecured) / B (high) (subordinated) / R-4 (short-term) by DBRS Ratings Limited ("DBRS"). Moody's, Fitch and DBRS are established in the EU and registered under the CRA Regulation. Tranches of Notes (as defined in "*General Description of the Programme*") may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme and/or the Notes already issued. Where a Tranche of Notes is to be rated, such ratings will be specified in the relevant Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed 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.

Early Redemption

Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity only for taxation reasons or, in the case of Subordinated Notes, Senior Non Preferred Notes and certain Ordinary Senior Notes, for regulatory capital treatment reasons. See "*Terms and Conditions of the Notes— Redemption, Purchase and Options*".

Withholding Tax

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes in Portugal unless the withholding is required by law. In such event, the Issuer shall, subject to customary exceptions and, in the case of Subordinated Notes and Senior Non Preferred Notes, in relation to interest only, pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in and in accordance with Decree-Law no. 193/2005, of 7 November 2005 (as amended) (See "*Taxation – Special Debt securities tax regime*").

Governing Law

English law, save that Conditions 2 and 15 and the provisions relating to the form (*representação formal*) and transfer of the Notes, the creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes and Clauses 5, 6, 7 and 12 of the Instrument are governed by, and shall be construed in accordance with, Portuguese law.

Listing and Admission to Trading

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

Selling Restrictions

The United States, Prohibition of Sales to European Economic Area Retail Investors, the United Kingdom, the Portuguese Republic, Japan, France and Singapore. See "*Subscription and Sale*".

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as amended.

If TEFRA C is specified as "Applicable" in the relevant Final Terms, then the Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "C Rules") unless the Notes are issued other than in compliance with the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Use of Proceeds:

The net proceeds from each issue of Notes will be used for the general financing purposes of the Issuer. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by registration in the Interbolsa book-entry system and governed by these terms and conditions and by a deed poll given by Caixa Económica Montepio Geral, caixa económica bancária, S.A. (in its capacity as issuer, the "**Issuer**") in favour of the Noteholders as amended and restated on 31 October 2019 (the "**Instrument**"), which includes the form of the Notes referred to below. Agency terms dated 31 October 2019 (as amended and/or supplemented and/or restated as at the date of issue of the Notes (the "**Issue Date**"), the "**Agency Terms**") has been entered into in relation to the Notes by Caixa Económica Montepio Geral, caixa económica bancária, S.A. in its capacity as Issuer and in its capacity as agent (in such capacity, the "**Agent**"). Copies of the Agency Terms are available for inspection during usual business hours at the registered office of the Agent (presently at Rua Castilho 5, 1250-066 Lisbon, Portugal).

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Instrument, and are deemed to have notice of those provisions of the Agency Terms applicable to them.

1 Form, Denomination and Title

Notes are issued in dematerialised book-entry (*forma escritural*) and registered nominative (*nominativas*) form, in the Specified Denomination as specified in the applicable Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, the minimum Specified Denomination shall be €100,000 (or its equivalent in other currencies as at the date of issue of the relevant Notes) as specified in the applicable Final Terms.

The Notes will be registered by *Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* ("**Interbolsa**") as management entity of the Portuguese Centralised System of Registration of Securities (*Central de Valores Mobiliários*) ("**CVM**").

The Notes shall be issued in registered nominative form (*nominativas*), not bearer form, whether in definitive bearer form or otherwise.

Each person shown in the individual securities account held with an affiliated member of Interbolsa as having an interest in the Notes shall be considered the holder of the principal amount of Notes recorded. One or more certificates in relation to the Notes (each a "**Certificate**") will be delivered by the relevant affiliated member of Interbolsa in respect of its registered holding of Notes upon the request by the relevant Noteholder and in accordance with that affiliated member's procedures and pursuant to article 78 of the Portuguese Securities Code (*Código dos Valores Mobiliários*).

Title to the Notes passes upon registration in the individual securities account held with an affiliated member of Interbolsa. Any Noteholder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Noteholder.

The Notes are Ordinary Senior Notes, Senior Non Preferred Notes or Subordinated Notes as specified in the applicable Final Terms.

The Notes are Fixed Rate Notes, Reset Notes, Floating Rate Notes, Zero Coupon Notes, a combination of any of the foregoing or any other kind of Notes, depending upon the Interest and Redemption/Payment Basis specified in the applicable Final Terms.

In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the records of an affiliated member of Interbolsa.

2 Status

(a) Status of Senior Notes

The obligations of the Issuer under the Ordinary Senior Notes and the Senior Non Preferred Notes (together, the "**Senior Notes**") are direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Issuer and, subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), in the event of the winding up of the Issuer, such obligations rank and will rank:

(i) in the case of Ordinary Senior Notes:

(a) *pari passu* among themselves and with any other Senior Higher Priority Liabilities; and

(b) senior to (i) Senior Non Preferred Liabilities and (ii) all present and future subordinated obligations of the Issuer (including, for the avoidance of doubt, all Subordinated Notes); and

(ii) in the case of Senior Non Preferred Notes:

(a) *pari passu* among themselves and with any other Senior Non Preferred Liabilities;

(b) junior to any present or future claims of depositors of the Issuer and to any Senior Higher Priority Liabilities (and, accordingly, upon the insolvency of the Issuer, the claims in respect of Senior Non Preferred Notes will be met after payment in full of the claims of depositors of the Issuer and the Senior Higher Priority Liabilities) in accordance with Article 8-A; and

(c) senior to all present and future subordinated obligations of the Issuer (including, for the avoidance of doubt, all Subordinated Notes) in accordance with Article 8-A.

(b) Status of Subordinated Notes

The Subordinated Notes are direct and unsecured obligations of the Issuer subordinated as provided below and rank and will rank *pari passu* among themselves.

The claims of the holders of the Subordinated Notes against the Issuer in respect of payments pursuant to the Subordinated Notes will, in the event of the bankruptcy or winding up of the Issuer, (to the extent permitted by Portuguese law) be subordinated in right of payment in the manner provided in this Condition 2(b) and the Instrument, to the claims of all Senior Creditors of the Issuer but shall rank (a) at least *pari passu* with the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer and all obligations of the Issuer which rank, or are expressed to rank, *pari passu* therewith and (b) in priority to any present or future claims of holders of (1) all share capital of the Issuer, (2) all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital of the Issuer, and (3) all other obligations of the Issuer which rank, or are expressed to rank, junior to the Subordinated Notes or Tier 2 Capital of the Issuer.

For the purposes of these Conditions:

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, minimum requirements for eligible liabilities, resolution and/or solvency then in effect in Portugal and applicable to the Issuer, including, without limitation to the generality of the foregoing, CRD, the BRRD, the SRM Regulation and those regulations, requirements, guidelines and policies relating to capital adequacy, minimum requirements for eligible liabilities, resolution and/or solvency in each case to the extent then in effect of the Competent Authority and/or any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union (including, for the avoidance of doubt the CRD Regulation);

"**Article 8-A**" means Article 8-A of Decree-Law 199/2006 of 25 October 2006, as amended or superseded (including by Law 23/2019 of 13 March 2019, which implemented Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017);

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions, as the same may be amended or superseded from time to time (including by BRRD II);

"**BRRD II**" means Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the BRRD as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998, as the same may be amended or superseded from time to time;

"**Competent Authority**" means Banco de Portugal, the European Central Bank or such other or successor authority (whether in Portugal or elsewhere) having primary responsibility for prudential supervision, resolution matters and/or empowered by national law to supervise the Issuer as part of the supervisory system in operation in Portugal (and which may be the Relevant Resolution Authority (as defined below) where the context so requires);

"**CRD**" means any of, or any combination of, the CRD Directive, the CRR and any CRD Implementing Measures;

"**CRD Directive**" means Directive (EU) 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 of the European Parliament and of the Council of 16 December 2002 and repealing Directives 2006/48/EC of the European Parliament and of the Council of 14 June 2006 and 2006/49/EC of the European Parliament and of the Council of 14 June 2006, as the same may be amended or superseded from time to time (including by the CRD V Directive);

"**CRD Implementing Measures**" means any rules implementing the CRD Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Competent Authority, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a stand alone basis) or the Group (on a consolidated basis) and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital or the minimum requirement for own funds and eligible liabilities, as the case may be, of the Issuer (on a stand alone basis) or the Group (on a consolidated basis);

"**CRD V Directive**" means Directive 2019/878 (EU) of the European Parliament and of the Council of 20 May 2019 as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures of the European Parliament and of the Council of 20 May 2019 amending the CRD, as the same may be amended or superseded from time to time;

"**CRR**" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (as the same may be amended or superseded from time to time, including by CRR II);

"**CRR II**" means Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements of the European Parliament and of the Council of 20 May 2019 amending the CRR, and Regulation (EU) No 648/2012, as the same may be amended or superseded from time to time;

"**Senior Creditors**" means (a) creditors of the Issuer whose claims are admitted to proof in the winding-up of the Issuer and who are unsubordinated creditors (*credores comuns*) of the Issuer (including, without limitation, holders of Senior Notes) and (b) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims relate to obligations which constitute, or would, but for any applicable limitation on the amount of such capital, constitute Tier 1 Capital or Tier 2 Capital of the Issuer, or whose claims otherwise rank or are expressed to rank *pari passu* with, or junior to, the claims of holders of the Subordinated Notes);

"**Senior Higher Priority Liabilities**" means any obligations of the Issuer under any Ordinary Senior Notes and any other unsecured and unsubordinated obligations of the Issuer other than Senior Non Preferred Liabilities;

"**Senior Non Preferred Liabilities**" means any unsubordinated and unsecured senior non preferred obligations of the Issuer under Article 8-A (including any Senior Non Preferred Notes) and any other obligations which, by law and/or by their terms, and to the extent permitted by Portuguese law, rank *pari passu* with the Senior Non Preferred Notes;

"**Tier 1 Capital**" has the meaning given to it by the Applicable Banking Regulations from time to time; and

"**Tier 2 Capital**" has the meaning given to it by the Applicable Banking Regulations from time to time.

(c) Waiver of Set-Off

This Condition 2(c) applies to: (i) Subordinated Notes; (ii) Senior Non Preferred Notes; and (iii) Ordinary Senior Notes unless "Ordinary Senior Notes: Waiver of Set-Off" is expressly specified to be "Not Applicable" in the relevant Final Terms for such Ordinary Senior Notes.

No holder of a relevant Note may at any time exercise or claim any right of set-off, netting or compensation in respect of any amount owed by it to the Issuer arising out of or in connection with the relevant Notes and each holder of such Note shall, by virtue of its subscription, purchase or holding of any such Note, be deemed to have waived all such rights of set-off or netting.

3 Negative Pledge in relation to certain of the Ordinary Senior Notes

(a) Restriction

This Condition 3(a) applies to Ordinary Senior Notes unless "Ordinary Senior Notes: Negative Pledge" is expressly specified to be "Not Applicable" in the relevant Final Terms for such Ordinary Senior Notes.

So long as any of the Ordinary Senior Notes remains outstanding (as defined in the Instrument) neither the Issuer nor any of its Subsidiaries (as defined in Condition 9) shall create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Ordinary Senior Notes (A) are secured equally and rateably therewith in the same manner or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (B) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Ordinary Senior Noteholders.

(b) Relevant Indebtedness

For the purposes of this Condition, "**Relevant Indebtedness**" means any present or future (actual or contingent) indebtedness for money borrowed or raised in the form of, or represented by, bonds, notes, debentures, debenture stock, loan stock, certificates or other instruments that are, or are capable of being, quoted, listed or traded on any stock exchange, or other securities market (including, without limitation, any over-the-counter market) (other than an issue which is placed in Portugal in an amount greater than 50 per cent. of its aggregate principal amount). For the avoidance of doubt, "**indebtedness for money borrowed or raised**", for the purpose of this definition, does not include preference shares or any other equity securities or Covered Bonds (as defined below).

"**Covered Bonds**" means any mortgage-backed bonds and/or covered bonds or notes issued by the Issuer, the obligations of which benefit from a special creditor privilege (*privilégio creditório especial*) as a result of them being collateralised by a defined pool of assets comprised of mortgage loans or other loans permitted by applicable Portuguese legislation to be included in the pool of assets and where the requirements for that collateralisation are regulated by applicable Portuguese legislation.

4 Interest and other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4(g).

(b) Interest on Reset Notes

(i) Rates of Interest and Interest Payment Dates

Each Reset Note bears interest:

(A) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;

(B) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and

(C) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on the date(s) so specified in the applicable Final Terms on which interest is payable in each year (each, an "**Interest Payment Date**") and on the Maturity Date if that does not fall on an Interest Payment Date. The Rate of Interest and the Interest Amount payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount, in accordance with the provisions for calculating amounts of interest in Condition

4(g) and, for such purposes, references in Condition 4(a) to "Fixed Rate Notes" shall be deemed to be to "Reset Notes" and Condition 4(a) shall be construed accordingly.

(ii) *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, subject to Condition 4(j), the Calculation Agent shall request each of the Mid-Swap Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Mid-Swap Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent and with such sum converted as described in the definition of First Reset Rate of Interest or Subsequent Reset Rate of Interest (as applicable).

If on any Reset Determination Date only one or none of the Mid-Swap Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 4(b)(ii), the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, an amount set out in the relevant Final Terms as the "**First Reset Period Fallback**".

For the purposes of this Condition 4(b)(ii), "**Mid-Swap Reference Banks**" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(iii) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Agent and any stock exchange or other relevant authority on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day (where a "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London) thereafter. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will notify the Luxembourg Stock Exchange of any reset Rate of Interest and relevant Interest Amount(s) no later than the first day of each Reset Period.

(iv) *Determination or Calculation*

If for any reason the Calculation Agent defaults in its obligation to determine the First Reset Rate of Interest, a Subsequent Reset Rate of Interest or to calculate any Interest Amount in accordance with this Condition 4(b), the Issuer (or an agent appointed by it on its behalf) shall determine the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 4 and to any terms specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer (or its agent) shall calculate the

Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

(c) Interest on Floating Rate Notes

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4(g). Such Interest Payment Date(s) is/are either specified in the applicable Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period specified in the applicable Final Terms as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms and, subject to Condition 4(j), the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

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 Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the applicable Final Terms;

(y) the Designated Maturity is a period specified in the applicable Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) 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 Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards),

(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 at either 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 as determined by the Calculation Agent or other party responsible for the calculation of the Rate of Interest as specified in the applicable Final Terms (and references in this Condition 4(c)(iii)(B) to "**Calculation Agent**" shall be construed accordingly).

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 Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

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

(y) If the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified in the relevant Final Terms as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the relevant Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the relevant Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(d) ***Zero Coupon Notes***

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 5(b)(i)(B).

(e) ***Accrual of Interest***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 7).

(f) ***Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding***

(i) If any Margin is specified in the applicable Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(c) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the applicable Final Terms, *then* any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) *all* percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(g) ***Calculations***

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods.

(h) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts***

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any Rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Issuer, the Agent, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 9, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. All certificates, communications, opinions, determinations, calculations and quotations given, expressed, made or obtained for the purposes of the provisions of Conditions 4(b) and 4(c) by the Calculation Agent shall (in the absence of wilful default, bad faith and manifest error) be binding on the Issuer, the Agent, the Calculation Agent and all Noteholders and (in the absence of bad faith and wilful default) no liability to the Issuer or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers and duties pursuant to such provisions.

(i) Determination or Calculation

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Issuer shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Issuer shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(j) Benchmark Discontinuation

(i) Independent Adviser

Notwithstanding the provisions above in Conditions 4(b) and 4(c), if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable and at its own cost (provided that, in the case of Reset Notes, such appointment need not be made earlier than 30 days prior to the first date on which the Original Reference Rate is to be used to determine any Rate of Interest (or any component part thereof)), to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4(j)(iv)) and, in each case, an Adjustment Spread and any Benchmark Amendments (in accordance with Conditions 4(j)(v) and 4(j)(vi)). In making such determination, the Independent Adviser appointed pursuant to this Condition 4(j)(i) shall be required to act in good faith and in a commercially reasonable manner. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agent or the Noteholders for any determination made by it, pursuant to this Condition 4(j)(i).

(ii) Issuer Determination

If (a) the Issuer is unable to appoint an Independent Adviser or (b) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 4(j)(i) prior to the relevant Interest Determination Date or Reset Determination Date, as applicable, the Issuer, acting in good faith and in a commercially reasonable manner, may itself determine (but shall not be obliged to determine) (i) a Successor Rate or Alternative Rate and (ii) in either case, an Adjustment Spread (if any) and/or any Benchmark Amendments in accordance with this Condition 4(j) (with the relevant provisions in this Condition 4(j) applying *mutatis mutandis* to allow such determinations to be made by the Issuer without consultation with an Independent Adviser). In the event the Issuer decides to make a determination in accordance with this Condition 4(j), without prejudice to the definitions hereof, for the purposes of determining any Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments (as the case may be), the Issuer shall take into account any relevant and applicable market precedents and customary market usage as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

(iii) Issuer's failure to determine a Successor Rate or Alternative Rate

If the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate, or otherwise decides not to determine a Successor Rate or Alternative Rate in accordance with this Condition 4(j), the Rate of Interest applicable to the next succeeding Interest Accrual Period or Reset Period, as applicable, shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period or Reset Period, respectively. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin, First Margin, Subsequent Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period or Reset Period, as applicable, from that which applied to the last preceding Interest Accrual Period or Reset Period, the Margin, First Margin, Subsequent Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period or Reset Period, as applicable, shall be substituted in place of the Margin, First Margin, Subsequent Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period or Reset Period, respectively. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period or Reset Period only and any subsequent Interest Accrual Periods or Reset Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4(j)(i).

(iv) Successor Rate or Alternative Rate

If the Independent Adviser (failing which, the Issuer) determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 4(j)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 4(j)).

(v) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(vi) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread (if any) is determined in accordance with this Condition 4(j) and the Independent Adviser (or Issuer, as the case may be) determines (a) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or the applicable Adjustment Spread (if any) (such amendments, the "**Benchmark Amendments**") and (b) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(j)(vii), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 4(j)(vi), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 4(j), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes:

(A) in the case of Subordinated Notes, as Tier 2 Capital; and/or

(B) in the case of Senior Notes, as MREL-Eligible Instruments for the purposes of the Applicable Banking Regulations,

or, in the case of Ordinary Senior Notes and Senior Non Preferred Notes only, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to result in the Competent Authority treating a future Interest Payment Date as the effective maturity of the Notes, rather than the relevant Maturity Date for the purposes of qualification of the Notes as MREL-Eligible Instruments of the Issuer.

(vii) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 4(j) will be notified promptly by the Issuer to the Calculation Agent, the Agent and, in accordance with Condition 12, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Agent of the same, the Issuer shall deliver to the Agent a certificate signed by two authorised signatories of the Issuer:

(A) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate, (c) (subject to Condition 4(j)(v) above) the applicable Adjustment Spread and (d) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(j); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread (if any).

The Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Agent, the Calculation Agent and the Noteholders.

(viii) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under this Condition 4(j), the Original Reference Rate and the fallback provisions provided for in Condition 4(b)(ii) or 4(c), as applicable, will continue to apply unless and until a Benchmark Event has occurred.

(k) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)

(ii) the Independent Adviser (failing which, the Issuer) determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser (failing which, the Issuer) determines that no such spread is customarily applied)

(iii) the Independent Adviser (failing which, the Issuer) determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser (failing which, the Issuer) determines in accordance with Condition 4(j)(iv) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 4(j)(vi).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used, either generally or in respect of the Notes; or

(v) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate; or

(vi) the making of a public statement by the supervisor of the administrator of such Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used,

provided that in the case of (ii), (iii) and (iv), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "**TARGET Business Day**") and/or

(iii) in the case of a currency and/or one or more Additional Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres. "**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the "**Calculation Period**"):

  (i) if "Actual/Actual" or "Actual/Actual — ISDA" is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation 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 Calculation Period divided by 365

  (iii) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 360

(iv) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y_1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y_2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M_1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M_2” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D_1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

“D_2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D2 will be 30; and

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

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

where:

“Y_1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y_2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M_1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M_2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D_1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

“D_2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30

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

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

where:

“Y_1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30

(vii) if "Actual/Actual-ICMA" is specified in the applicable Final Terms,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date and

"**Determination Date**" means the date specified as such in the applicable Final Terms or, if none is so specified, the Interest Payment Date.

"**EURIBOR**" means the euro interbank offered rate administered by the European Money Markets Institute.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community as amended from time to time.

"**First Margin**" means the margin specified as such in the applicable Final Terms.

"**First Reset Date**" means the date specified in the applicable Final Terms.

"**First Reset Period**" means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date.

"**First Reset Rate of Interest**" means, in respect of the First Reset Period and subject to Condition 4(b)(ii), 4(b)(iv) and (if applicable) Condition 4(j), the rate of interest determined by the Calculation Agent on the relevant

Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin (with such sum converted (if necessary) from a basis equivalent to the Fixed Leg Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period (such calculation to be made by the Calculation Agent).

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 4(j)(i).

"**Fixed Leg Frequency**" means the frequency specified as such in the applicable Final Terms.

"**Initial Rate of Interest**" has the meaning specified in the applicable Final Terms.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the applicable Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the applicable Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the applicable Final Terms.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is British Pound Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither British Pound Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the applicable Final Terms.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the applicable Final Terms.

"**LIBOR**" means the London interbank offered rate administered by ICE Benchmark Administration Limited.

"**Mid-Market Swap Rate**" means, subject to Condition 4(b)(ii) and (if applicable) Condition 4(j), for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Frequency (as specified in the applicable Final Terms) (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Swap Rate Period (as specified in the relevant Final Terms) and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Floating Leg Frequency (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent).

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate.

"**Mid-Swap Floating Leg Benchmark Rate**" means, subject to Condition 4(j), if applicable, EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro.

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 4(b)(ii) and (if applicable) Condition 4(j), either:

(i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Swap Rate Period (if specified in the relevant Final Terms); and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Swap Rate Period (if specified in the relevant Final Terms); and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Rate of Interest**" means, in the case of Reset Notes, the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable, and in any other case, the rate of interest payable from time to time in respect of the Note and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the applicable Final Terms.

"**Reference Rate**" means the rate, being either LIBOR or EURIBOR, specified as such in the applicable Final Terms.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory bodies or (d) the Financial Stability Board or any part thereof.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Final Terms, or such replacement page on that service which displays the information.

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable), in each case as adjusted (if so specified in the applicable Final Terms) in accordance with Condition 4(a) as if the relevant Reset Date was an Interest Payment Date.

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period.

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be.

"**Second Reset Date**" means the date specified in the applicable Final Terms.

"**Specified Currency**" means the currency specified as such in the applicable Final Terms or, if none is specified, the currency in which the Notes are denominated.

"**Subsequent Margin**" means the margin specified as such in the applicable Final Terms.

"**Subsequent Reset Date**" means the date or dates specified in the applicable Final Terms.

"**Subsequent Reset Period**" means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date.

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 4(b)(ii) and (if applicable) Condition 4(j), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin (with such sum converted (if necessary) from a basis equivalent to the Fixed Leg Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the Subsequent Reset Period (such calculation to be made by the Calculation Agent)).

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(l) Calculation Agent

The Issuer shall procure that there shall at all times be one or more calculation agents if provision is made for them in the applicable Final Terms and for so long as any Note is outstanding (as defined in the Instrument). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

5 Redemption, Purchase and Options

(a) Final Redemption

(i) Unless previously redeemed, purchased and cancelled as provided below, each Senior Note or Subordinated Note shall be finally redeemed on the Maturity Date specified in the applicable Final Terms at its Final Redemption Amount (which is its nominal amount). Senior Non Preferred Notes and Ordinary Senior Notes intended by the Issuer to be MREL-Eligible Instruments for the purposes of the Applicable Banking Regulations will have an original maturity of at least one year or such minimum or maximum maturity as may be permitted or required from time to time by Applicable Banking Regulations. Subordinated Notes will have a minimum maturity of at least five years or as otherwise permitted or required in accordance with Applicable Banking Regulations from time to time. For the avoidance of doubt, no payments of principal under the Notes will be made in instalments.

(b) Early Redemption

(i) *Zero Coupon Notes*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the applicable Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the applicable Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such subparagraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. In the case of Subordinated Notes, such redemption is also subject to the provisions of Condition 2(b) and Condition 5(k). The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 4(e).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction specified in the applicable Final Terms.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount (together with any accrued interest).

(c) Redemption for Taxation Reasons

The Senior Notes and Subordinated Notes may, subject to the provisions of Condition 5(k), be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 5(b) above) (together with interest accrued (but unpaid) to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as described under Condition 7 as a result of any change in, or amendment to, the laws or regulations of Portugal or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first tranche of Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Upon the expiry of any such notice as is referred to in this Condition 5(c), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(c).

(d) Redemption at the Option of the Issuer

If Call Option is specified in the applicable Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the applicable Final Terms), redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued (but unpaid) to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the applicable Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the applicable Final Terms.

In the case of Subordinated Notes, such redemption cannot occur earlier than five years from the Issue Date of the relevant Subordinated Notes and its exercise is subject to the provisions of Condition 5(k).

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption, the notice to Noteholders shall also contain the information required for compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Redemption due to a Capital Event

Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, (but subject to Condition 5(k)) at any time (if this Subordinated Note is not a Floating Rate Note) or on any Interest Payment Date (if this Subordinated Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (together with interest accrued (but unpaid) to the date fixed for redemption) if, at any time, the Issuer determines that a Capital Event has occurred.

For the purposes of these Conditions:

"**Capital Event**" means the determination by the Issuer after consultation with the Competent Authority that all or any part of the Notes are not eligible for inclusion in the Tier 2 capital of the Issuer or the Group pursuant to Applicable Banking Regulations (other than as a result of any applicable limitation on the amount of such capital as applicable to the Issuer or the Group, as the case may be). For the avoidance of doubt, any amortisation of the Notes pursuant to the CRR shall not constitute a Capital Event; and

"**Group**" means the Issuer and its subsidiaries taken as a whole.

(f) Redemption due to an MREL Event

If, in the case of Senior Non Preferred Notes and Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as "Applicable" in the relevant Final Terms only, following the MREL Requirement Date, an MREL Event has occurred and is continuing, then the Issuer may at its option, subject to the provisions of Condition 5(k), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the relevant Notes. The Issuer shall redeem the relevant Notes on the date specified for redemption in such notice.

Notes redeemed early pursuant to this Condition 5(f) will be redeemed at their early redemption amount (the "**Early Redemption Amount (MREL Event**)") (which shall be the principal amount or such other Early Redemption Amount (MREL Event) as may be specified in or determined in accordance with the relevant Final Terms) together (if appropriate) with interest accrued (but unpaid) to the date fixed for redemption.

For the purposes of these Conditions:

"**MREL**" means the "minimum requirement for own funds and eligible liabilities" for credit institutions under the BRRD, set in accordance with Article 45 of the BRRD (as transposed in Portugal), Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016, supplementing the BRRD, or any successor requirement under EU legislation and relevant implementing legislation and regulation in Portugal;

"**MREL Event**" means, if as a result of any amendment to, or change in, the Applicable Banking Regulations, or in the application or official interpretation thereof, in any case becoming effective after the Issue Date of the first tranche of Notes, that at any time, on or following the MREL Requirement Date, all or part of the outstanding nominal amount of the Senior Non Preferred Notes or the Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as applicable in the relevant Final Terms does not fully qualify or ceases to qualify as MREL-Eligible Instruments of the Issuer and/or the Group, except where such non-qualification (i) is due solely to the remaining maturity of the relevant Notes being less than any period prescribed for MREL-Eligible Instruments by the Applicable Banking Regulations or (ii) is as a result of the relevant Notes being bought back by or on behalf of the Issuer or a buy-back of the relevant Notes which is funded by or on behalf of the Issuer or (iii) in the case of Ordinary Senior Notes where "Ordinary Senior Notes - MREL Event" has been specified as applicable in the relevant Final Terms, is due to the relevant Ordinary Senior Notes not meeting any requirement in connection to their ranking upon insolvency of the Issuer or any limitation on the amount of such Notes that may be eligible for inclusion in the amount of MREL- Eligible Instruments of the Issuer and/or the Group;

"**MREL-Eligible Instrument**" means an instrument that complies with the MREL Requirements;

"**MREL Requirement Date**" means the date from which the Issuer and/or the Group is obliged to meet any MREL Requirements; and

"**MREL Requirements**" means minimum requirement for own funds and eligible liabilities applicable to the Issuer and/or the Group under the Applicable Banking Regulations.

(g) ***Redemption at the Option of Noteholders***

If, in relation to Ordinary Senior Notes only, Put Option is specified in the applicable Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the applicable Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deliver a notice to the Agent in accordance with the standard procedures of Interbolsa stating the principal amount of the Notes in respect of which such option is exercised (a "**Put Notice**") to the specified office of the Agent at any time within the notice period during normal business hours of the Agent. In the Put Notice the relevant Noteholder must specify a bank account to which payment is to be made under this Condition 5.

(h) ***Purchases***

The Issuer and any of its Subsidiaries (but subject to Condition 5(k) in the case of Subordinated Notes, Senior Non Preferred Notes and Ordinary Senior Notes intended by the Issuer to be MREL-Eligible Instruments) may purchase Notes at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, or the relevant Subsidiary cancelled.

(i) ***Cancellation***

All Notes which are redeemed will forthwith be cancelled in accordance with the applicable regulations of Interbolsa. All Notes so cancelled shall not be capable of being reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged upon cancellation thereof.

(j) ***Substitution and Variation of Notes***

If (i) "Capital Event – Substitution and Variation" or "MREL Event – Substitution and Variation", as the case may be, is specified as "Applicable" in the relevant Final Terms and the Issuer is satisfied that a Capital Event (as defined in Condition 5(e)) or, as the case may be, an MREL Event (as defined in Condition 5(f)), has occurred and is continuing, or (ii) if required to ensure the effectiveness and enforceability of Condition 15, the Issuer may, subject to the provisions of Condition 5(k) and the notice requirements below but without any requirement for the consent or approval of the Noteholders or the Agent, either substitute all (but not some only) of the relevant Notes for, or vary the terms of the relevant Notes such that they remain or, as appropriate, become, Compliant Securities. Upon the expiry of the notice required by this Condition 5(j), the Issuer shall either vary the terms of, or substitute, the relevant Notes in accordance with this Condition 5(j), as the case may be and, subject as set out below, the Agent shall agree to such substitution or variation.

In connection with any substitution or variation in accordance with this Condition 5(j), the Issuer shall comply with the rules of any stock exchange on which such Notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this Condition 5(j) is subject to the Issuer giving not less than 30 nor more than 60 calendar days' notice to the Noteholders and the Agent in accordance with Condition 12, which notice shall be irrevocable.

Any substitution or variation in accordance with this Condition 5(j) shall not give the Issuer an option to redeem the relevant Notes under the Conditions.

For the purposes of this Condition 5(j):

"**Compliant Securities**" means securities that:

(a) are issued by the Issuer;

(b) rank equally with the ranking of the relevant Notes;

(c) save in respect of the effectiveness and enforceability of Condition 15, have terms not materially less favourable to Noteholders than the terms of the relevant Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing), provided that such securities:

(1) contain terms such that they qualify as Tier 2 Capital or MREL-Eligible Instruments, as the case may be; and

(2) include terms which provide for the same (or, from a Noteholder's perspective, more favourable) Rate of Interest from time to time, Interest Payment Dates, Maturity Date and Early Redemption Amount(s) as apply from time to time to the relevant Series of Notes immediately prior to such substitution or variation; and

(3) shall preserve any existing rights under the Conditions to any accrued interest, principal and/or premium which has not been satisfied; and

(4) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or interest; and

(5) do not contain terms providing for loss absorption through principal write down, write-off or conversion to ordinary shares, other than through the application of statutory powers pursuant to the Applicable Banking Regulations; and

(6) do not contain terms such that redemption pursuant to any one or more of Conditions 5(c), 5(e) or 5(f) could occur upon, or be foreseeable as a result of, such substitution or variation;

(d) are listed on (i) the regulated market of the Luxembourg Stock Exchange or (ii) such other EEA regulated market as selected by the Issuer; and

(e) where the relevant Notes which have been substituted or varied had a published rating solicited by the Issuer from a Rating Agency immediately prior to their substitution or variation (a "**Published Rating**") each such Rating Agency has ascribed, or announced its intention to ascribe, (i) an equal or higher Published Rating to the relevant Notes as substituted or varied or (ii) where the Published Rating was, as a result of Condition 15 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, the Published Rating immediately prior to such amendment.

"**Rating Agency**" means Moody's Investor Service España, S.A., Fitch Ratings Ltd. and DBRS Ratings Limited or their respective successors.

(k) Pre-conditions to Redemption, Purchase, Substitution or Variation of Notes

Any redemption, purchase, substitution or variation of Notes in accordance with Conditions 5(c), 5(d), 5(e), 5(f), 5(g), 5(h) and 5(j) is subject to:

(i) the Issuer having obtained the Competent Authority's prior consent or permission or non-objection if and to the extent required therefor under the Applicable Banking Regulations in force at the relevant time;

(ii) the Issuer having complied with any other pre-conditions to, or requirements applicable to, such redemption, purchase, substitution or variation as may be required by the Competent Authority or the Applicable Banking Regulations in force at the relevant time;

(iii) in the case of early redemption of Notes pursuant to Condition 5(c) only, before the publication of any notice of redemption, the Issuer shall deliver to the Agent (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment;

(iv) in the case of the early redemption of Subordinated Notes pursuant to Condition 5(c) only, the Issuer having demonstrated to the satisfaction of the Competent Authority that (a) the change in the applicable tax treatment is material and was not reasonably foreseeable as at the Issue Date of the most recent Tranche of the Notes and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and

(v) in the case of early redemption of Subordinated Notes pursuant to Condition 5(e) only, the Issuer having demonstrated to the satisfaction of the Competent Authority that (a) the circumstances giving rise to a Capital Event were not reasonably foreseeable as at the Issue Date of the most recent Tranche of the Subordinated Notes and (b) the change in the applicable regulatory classification is sufficiently certain.

6 Payments

(a) Payments of Principal and Interest

Payments in respect of Notes will be made by transfer to the registered account of the Noteholders maintained by or on behalf of it with a bank that processes payments in euro, details of which appear in the records of the relevant affiliated member of Interbolsa at the close of business on the Payment Business Day (as defined below) before the due date for payment of principal and or interest.

"**Payment Business Day**" means a day which (subject to Condition 8):

(a) is or falls before the due date for payment of principal and or interest; and

(b) is a TARGET Business Day.

(b) Payments subject to Fiscal Laws

Without prejudice to the provisions of Condition 7, all payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer or its agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof (without prejudice to the provisions of Condition 7), or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) *Appointment of Agents*

The Issuer reserves the right at any time to vary or terminate the appointment of the Agent or the Calculation Agent(s) and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) an Agent, (ii) one or more Calculation Agent(s) where the Conditions so require and (iii) such other agents as may be required by the rules of any stock exchange on which the Notes may be listed.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 12.

(d) *Non-Business Days*

If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in Portugal, in such jurisdictions as shall be specified as "Financial Centres" in the applicable Final Terms and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

7 Taxation

(a) *Withholding*

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall (subject to the conditions and limitations set out below) be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Portugal or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. Payments of interest and other types of remuneration on the Notes will be made without withholding or deduction for or on account of taxes imposed or levied by the Portuguese Republic where the relevant proof of non-residence status has been provided by the Noteholders to the direct registration entities prior to the Relevant Date. In the event that any withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Portugal or any political subdivision or any authority therein or thereof having power to tax is required by law, the Issuer shall pay in respect of payments of principal and interest in the case of Ordinary Senior Notes, and interest only in the case of Senior Non Preferred Notes and Subordinated Notes such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note:

(i) Other connection

to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of having some connection with Portugal other than the mere holding of the Note; or

(ii) *Lawful avoidance of withholding*

(A) to, or to a third party on behalf of, the beneficial owner of the Notes in respect of whom the information (which may include certificates) required in order to comply with Decree-Law no. 193/2005, of 7 November 2005 (as amended), and any implementing legislation, is not received; or (B) to, or to a third party on behalf of, the beneficial owner of the Notes (i) in respect of whom the information and documentation required by Portuguese law in order to comply with any applicable tax treaty is not received before the Relevant Date, and (ii) who is resident in one of the states which is party to any such applicable tax treaty; or (C) to, or to a third party on behalf of, the beneficial owner of the Notes resident in a tax haven jurisdiction as defined in Ministerial order (*Portaria*) no. 150/2004 of 13 February 2004 (as amended or superseded from time to time), with the exception of central banks and governmental agencies, or non resident legal entities held directly or indirectly in more than 20 per cent. by entities resident in Portugal; or

(iii) *Undisclosed beneficial owners*

presented for payment into an account held on behalf of undisclosed beneficial owners where such beneficial owners are not disclosed for purposes of payment and such disclosure is required by law.

(b) Definitions

As used in these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

8 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within twenty years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

9 Events of Default

(a) Ordinary Senior Notes

This Condition 9(a) applies to Ordinary Senior Notes unless the relevant Final Terms expressly specify Condition 9(a) as being "Not Applicable".

In the case of Ordinary Senior Notes to which this Condition 9(a) applies, if any of the following events ("**Events of Default**") occurs and is continuing, any Noteholder may give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest:

(i) *Non-Payment*

Default is made for more than 10 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(ii) *Breach of Other Obligations*

The Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Instrument and such default is incapable of remedy or is not remedied within 30 days after written notice of such default shall have been given to the Issuer by a Noteholder; or

(iii) *Cross-Default*

(A) any other present or future indebtedness of the Issuer or any of its Subsidiaries (as defined below) for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the amount of the relevant indebtedness, guarantees and/or indemnities in respect of which one or more of the events mentioned above in this paragraph (iii) have occurred, individually or in the aggregate, exceeds €10,000,000 (or its equivalent in any other currency or currencies) or, if greater, an amount equal to 1 per cent. of the Issuer's total equity; or

(iv) *Enforcement Proceedings*

One or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer or any of its Subsidiaries or a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and in any of the above cases, is not discharged or stayed within 60 days or, if later, the date specified therein for payment; or

(v) *Security Enforced*

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or

(vi) *Insolvency*

Any of the Issuer or any of its Subsidiaries (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts or (iii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(vii) *Winding-up*

An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms previously approved by an Extraordinary Resolution (as defined in the Instrument) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(viii) *Authorisation and Consents*

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Instrument, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Instrument admissible in evidence in the courts of Portugal, is not taken, fulfilled or done; or

(ix) *Illegality*

It is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or Instrument; or

(x) *Analogous Events*

Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs provided that except in the case of paragraphs (i) and (vii) such event is materially prejudicial to the interests of the Noteholders.

For the purpose of these Conditions:

"**Subsidiary**" means any entity of which the Issuer has control and "**control**" for the purpose of this definition means the beneficial ownership whether direct or indirect of the majority of the issued and/or voting share capital or the right to direct the management and policies of such entity, whether by the ownership of share capital, contract or otherwise. A certificate by any two authorised officers of the Issuer listing the entities that are Subsidiaries at any time shall, in the absence of manifest error, be conclusive and binding on all parties.

(b) Subordinated Notes, Senior Non Preferred Notes and certain Ordinary Senior Notes

This Condition 9(b) only applies if the Note is (i) a Senior Non Preferred Note, (ii) a Subordinated Note or (iii) an Ordinary Senior Note where the applicable Final Terms expressly specify Condition 9(a) as being "Not Applicable" and references in this Condition 9(b) to Notes shall be construed accordingly.

If any one or more of the following events (each an "**Event of Default**") shall occur:

(i) bankruptcy or insolvency proceedings are commenced by a court against the Issuer or the Issuer institutes such proceedings or suspends payments or makes a general arrangement for the benefit of its creditors; or

(ii) if otherwise than for the purposes of a reconstruction or amalgamation on terms previously approved by an Extraordinary Resolution of the Noteholders an order is made or an effective resolution is passed for the winding up of the Issuer,

any Noteholder may give notice to the Issuer that the relevant Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount together with accrued interest. For the avoidance of doubt, no Noteholder may give notice that the Notes shall become immediately due and payable other than in the circumstances described in paragraphs (i) and (ii) above and the Issuer shall not be obliged to pay any sum or sums sooner than such sum or sums would otherwise have been payable by it (other than as described in paragraphs (i) and (ii) above).

Without prejudice to Conditions 9(b)(i) and 9(b)(ii) above, if the Issuer breaches any of its obligations under the Instrument or the relevant Notes (other than any payment obligation of the Issuer under or arising from the Instrument or the such Notes, including, without limitation, payment of any principal or interest in respect of the such Notes and any damages awarded for breach of any obligations), then any Noteholder may bring such proceedings as it may think fit to enforce the obligation in question *provided that* the Issuer shall not, as a result of the bringing of any such proceeding, be obliged to pay any sum sooner than the same would otherwise have been payable by it. However, nothing in this Condition 9(b) shall prevent any Noteholder instituting proceedings for the winding-up of the Issuer and/or proving in any winding-up of the Issuer in respect of any payment obligations of the Issuer arising from the Subordinated Notes or the Instrument (including any damages awarded for breach of any such obligation), subject to a grace period of 10 days (in the case of interest) or seven days (in the case of principal).

For the purpose of this Condition 9(b) only, the Issuer may only redeem such Notes prior to maturity with the prior consent or approval of the Competent Authority (if and to the extent such prior consent is required by the Applicable Banking Regulations at the relevant time).

10 Meetings of Noteholders and Modification

(a) Meetings of Noteholders

The Instrument contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of any of these Conditions or any provisions of the Instrument. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is specified in the applicable Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) Modification

The Agent and the Issuer may agree, without the consent of the Noteholders (and by acquiring the Notes, the Noteholders agree that the Agent and the Issuer may, without the consent of the Noteholders), to make any modification to the provisions of the Conditions or the Instrument which: (i) is not prejudicial to the interests of the Noteholders; (ii) is of a formal, minor or technical nature; (iii) is made to correct a manifest or proven error; or (iv) is to comply with mandatory provisions of any applicable law or regulation. Any such modification shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable.

(c) ***Compliance with Applicable Banking Regulations***

The Issuer shall comply with Applicable Banking Regulations in connection with any modification or proposed modification of these Conditions.

11 Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

12 Notices

Notices to the holders of Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the internet site of the Luxembourg Stock Exchange (*www.bourse.lu*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. 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.

The Issuer shall also comply with Portuguese law in respect of Notices.

13 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

14 Governing Law and Jurisdiction

(a) ***Governing Law***

The Notes and the Instrument and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that Conditions 2 and 15 and the provisions relating to the form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes, and Clauses 5, 6, 7 and 12 of the Instrument, and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, Portuguese law.

(b) ***Jurisdiction***

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes ("**Proceedings**") may be brought in such courts. The Issuer has in the Instrument irrevocably submitted to the jurisdiction of such courts.

(c) ***Service of Process***

The Issuer has irrevocably appointed Hackwood Secretaries Limited at its offices presently located at One Silk Street, London EC2Y 8HQ as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

15 Statutory Loss Absorption Powers

Notwithstanding any other term of the Notes or any other agreement, arrangement or understanding between the Issuer and the Noteholders, by its subscription and/or purchase and holding of the Notes, each Noteholder (which for the purposes of this Condition 15 includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents and agrees:

(i) to be bound by the effect of the exercise of the Loss Absorption Power by the Relevant Resolution Authority, which may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the Amounts Due on a permanent basis; or

(B) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes, in which case the Noteholder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person; or

(C) the cancellation of the Notes or Amounts Due; or

(D) the amendment or alteration of the maturity of the Notes or amendment of the Interest Amount payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

(ii) that the terms of the Notes are subject to, and may be varied, if necessary, to give effect to, the exercise of the Loss Absorption Power by the Relevant Resolution Authority.

In these Conditions:

"**Amounts Due**" means the principal amount, together with any accrued but unpaid interest, and any additional amounts referred to in Condition 7, if any, due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Loss Absorption Power by the Relevant Resolution Authority;

"**Loss Absorption Power**" means any power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Portugal, relating to (i) the transposition of the BRRD, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended or superseded from time to time) and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of certain entities as set out in such law, regulation, rules or requirements can be reduced, cancelled, suspended, modified, or converted into shares, other securities, or other obligations;

"**Relevant Resolution Authority**" means any authority lawfully entitled to exercise or participate in the exercise of any Loss Absorption Power from time to time.

FORM OF THE NOTES

General

Interbolsa holds securities through 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, Banco de Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all procedures required for the exercise of ownership rights inherent to the Notes.

In relation to each issue of securities, Interbolsa's centralised system comprises, *inter alia*, (i) the issue account, opened by the 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 consumers in accordance with its individual securities accounts.

Notes held through Interbolsa will be attributed an International Securities Identification Number ("**ISIN**") code through the codification system of Interbolsa and will be settled by Interbolsa's settlement system. Under the procedures of Interbolsa's settlement system, settlement takes place on the third business day after the trade date and is provisional until the financial settlement that takes place at Banco de Portugal (or at Caixa Geral de Depósitos, if denominated in currencies other than euro) on the settlement date.

Form of the Notes

The Notes of each Series will be in book-entry form (*escriturais*) and title to the Notes will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable Comissão do Mercado de Valores Mobiliários (the "**CMVM**" – the Portuguese Securities Authority) and Interbolsa regulations. No physical document of title will be issued in respect of Notes held through Interbolsa.

The Notes 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 Notes. Such control accounts reflect at all times the aggregate of Notes held in the individual securities accounts opened by the holders of the Notes 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 individual securities account held with an Interbolsa Participant as having an interest in Notes shall be treated as the holder of the principal amount of the Notes recorded therein.

Payment of principal and interest in respect of Notes held through Interbolsa

Whilst the Notes are held through Interbolsa, (I) payment of principal and interest in euros in respect of the Notes 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 the payment system of Banco de Portugal by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Notes and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (II) payment of principal and interest in currencies other than euros in respect of the Notes will be (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the relevant paying agent in the Foreign Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Interbolsa Participants, and thereafter (b) transferred by such Interbolsa Participants from such relevant accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

Transfer of Notes held through Interbolsa

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

USE OF PROCEEDS

The net proceeds from each issue of Notes by the Issuer under the Programme will be applied by the Issuer for its general corporate purposes or as otherwise stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

Introduction to Banco Montepio

Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("**Banco Montepio**" or the "**Issuer**") was created on 24 March 1844 for an indefinite period and as at the date of this Base Prospectus has a total share capital of €2,420,000,000, the majority of which (99.99 per cent.) is owned by its founder Montepio Geral – Associação Mutualista ("**MGAM**"). MGAM and its subsidiaries are together referred to in this Base Prospectus as "**MGAM Group**".

On 14 September 2017, the Issuer completed a change in its legal status from a savings bank affiliated to MGAM into a full service savings bank (*caixa económica bancária*) incorporated as a public limited liability company (*sociedade anónima*), under the supervision of Banco de Portugal.

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 612,607 mutual members (as at 31 December 2018), their families and other beneficiaries nominated by them. The welfare schemes MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes. It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

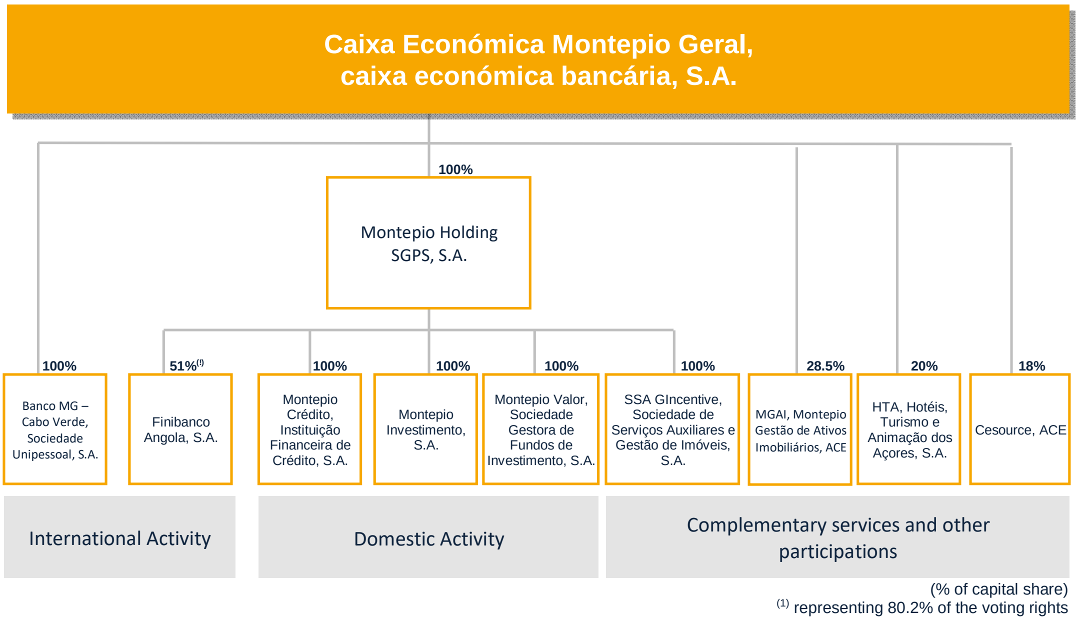
Banco Montepio is a credit institution, authorised to operate as a "universal bank", in accordance with Decree-Law 136/79, of 18 May (as amended) and, as at 31 December 2018, it ranks sixth in the Portuguese banking system on the basis of total net assets (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Following the entry into force of the Savings Banks Act in 2015 and the 2016 Banco de Portugal's resolution pursuant to paragraph 2 thereof, Banco Montepio has been designated as a savings bank (*caixa económica bancária*), authorised in such capacity to pursue all the businesses permitted to banks in Portugal.

On 20 February 2019, the Issuer changed its brand name to "Banco Montepio" but its legal name remains the same (Caixa Económica Montepio Geral, caixa económica bancária, S.A.). The Banco Montepio brand represents an evolution of the identity of the Issuer and reflects its new vision: an independent Portuguese bank which is focused on Portuguese families, corporates and social institutions (such as cooperatives, mutual societies, associations and foundations carrying out a set of business and economic activities, within the private sphere, in order to promote general economic and/or social interests). By changing its brand name, the Issuer has sought to clarify to both the general public and its clients the distinction between Banco Montepio and MGAM, its main shareholder. In addition to the change of the brand name, Banco Montepio also changed its commercial logo and brand colours.

The Issuer is managed in accordance with, as at the date of this Base Prospectus, its Articles of Association and with the provisions of the Portuguese Companies Code. MGAM, as the major holder of the Issuer's share capital (99.99 per cent.) is the major holder of voting rights in Banco Montepio and it has its rights governed under and subject to Banco Montepio's Articles of Association and Portuguese law.

Banco Montepio is integrated in the Banco Montepio Group, of which MGAM has a 99.99 per cent. holding. Banco Montepio holds shares in a series of institutions, as shown in the Banco Montepio Group structure chart below, whose management it controls. These entities complement Banco Montepio's financial products and services and contribute via their earnings to the creation of value for its shareholders (primarily MGAM) and, as well as promoting high ethical standards and principles of social sustainability. 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 shareholders' social and welfare-related goals.

Banco Montepio Group structure as at the date of this Base Prospectus:



In addition to Banco Montepio, the Banco Montepio Group comprises the following three 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. Each of these companies are wholly owned by Montepio Holding, SGPS, S.A. ("**Montepio Holding**") (previously Finibanco Holding, SGPS, S.A.) which itself is fully owned by Banco Montepio. For further information, please refer to the section "*Outline of the performance of the Banco Montepio Group's companies*".

In addition, within the domestic market, Banco Montepio also has a small qualified holding in HTA-Hotéis, Turismo e Animação dos Açores, S.A. (Tourism sector) and in Montepio Gestão de Ativos Imobiliários, ACE (a complementary company group (*Agrupamento Complementar de Empresas*) created to manage MGAM Group´s real estate more efficiently), whose accounts are consolidated by the equity method, as well as a 100 per cent. capital participation in SSAGINCENTIVE, S.A. (Real Estate sector). At an international level, Banco Montepio holds majority holdings in Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and in Finibanco Angola. In December 2018, the Banco Montepio Group sold its 45.8 per cent. holding in BTM, reducing its international branches by 10. For further information, please refer to the section "- *International Activity*".

The Banco Montepio Group also includes the real estate properties held by the following special purpose entities and investment funds:

- Montepio Arrendamento I, Montepio Arrendamento II and Montepio Arrendamento III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (Closed-end Real Estate Investment Funds for Housing Rental) 100 per cent. held by Banco Montepio;
- Polaris – Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund) fully owned by Banco Montepio;
- Portugal Estates Fund (PEF) - Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund) 100 per cent. held by Banco Montepio; and
- Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (Open-end Special Real Estate Investment Fund) owned by 82.9 per cent. by Banco Montepio and 17.1 per cent. by Montepio Investimento, S.A.

For more information please see note 61 (Subsidiary and associated companies) to the Annual Report 2018.

The Issuer undertakes a major role in the implementation of Banco Montepio Group's business strategy, as it uses its nationwide branch network comprising 324 branches in Portugal as at 31 December 2018 (324 branches in Portugal as at 31 December 2017). Banco Montepio's commercial network is further complemented by a network of electronic channels, together with its presence in various overseas Portuguese communities (including five representative offices outside of Portugal). Banco Montepio is also present in Angola, through Finibanco Angola (Banco Montepio holds an effective stake of 80.2 per cent. in Finibanco Angola), which had a retail network of 24 branches as at 31 December 2018. For further information, please refer to the section "- *International Activity*".

Banco Montepio is a savings bank (*caixa económica bancária*) incorporated as a public limited liability company (*sociedade anónima*) under the laws of the Portuguese Republic and is registered at the Lisbon Commercial Registry Office (1st Section) under the single registration and tax identification number 500 792 615 and is domiciled in Portugal, having its registered office at Rua Castilho, 5, 1250-066 Lisbon, Portugal, with telephone number +351 213 248 000.

History

In 1840, Francisco Manuel Alvares Botelho established Montepio dos Empregados Públicos, a mutual benefit association intended to assist its members through periods of unforeseen financial hardship, caused by illness, disability or death. Its name was changed twice, firstly to Montepio Geral, Associação de Socorros Mútuos and in 1844 it was changed to Montepio Geral – Associação Mutualista, the name that MGAM still bears today.

In 1844, MGAM created Caixa Económica de Lisboa, (which was renamed Caixa Económica Montepio Geral on 23 April 1991) with the aim of attracting small-scale savings and providing credit facilities. MGAM and its subsidiaries and affiliates offer a wide variety of banking, insurance and fund management products from Banco Montepio's branches throughout Portugal. Originally, Banco Montepio was run as a division of MGAM but, by the late 1930s, the two organisations had become separate legal entities. In accordance with Decree-Law no. 460/77, of 7 November 1977 (as last amended by Decree-Law 391/2007, of 13 December 2007), MGAM is a "collective person of public interest".

In order to broaden the offer of financial services to its customer base, in 1986, MGAM decided to found Lusitania Companhia de Seguros, S.A. ("**Lusitania**"). Lusitania is a general insurance company whose products are sold through Banco Montepio's branches and through its own network. Lusitania Vida, Companhia de Seguros, S.A. ("**Lusitania Vida**"), which offers life insurance products, was incorporated in 1987.

Pursuing its strategy of broadening its commercial offer and the diversification of its income sources, in 1988, MGAM established Futuro – Sociedade Gestora de Fundos de Pensões, S.A. ("**Futuro**"), enabling the MGAM Group to expand into the pension fund management business.

As part of its investment management business, the MGAM Group holds Montepio Gestão de Activos, S.A., a company specialised in the management of mutual funds and wealth management, and Montepio Gestão de Activos Imobiliários, ACE, a company specialised in the management of real estate funds.

In 1995, Banco Montepio acquired certain limited assets and liabilities from a small savings bank in the Azores, Caixa Económica Açoreana. S.A. This acquisition allowed Banco Montepio to establish its presence in the Azores Autonomous Region.

Additionally, in January 1997, Banco Montepio acquired certain assets and liabilities of another small savings bank, Caixa Económica Comercial e Industrial ("**CECI**"). In 2009, Lusitania Companhia de Seguros, S.A. acquired the insurance companies Real and Mutuamar, doubling its market share in the real insurance business, thereby achieving a market share in line with the MGAM Group's objectives.

In 2010, MGAM acquired the whole of Finibanco-Holding, SGPS, S.A. through a friendly public takeover bid. The main goals of the transaction were the expansion of the MGAM Group's mutualism activities and the diversification of its business activities.

In order to take the necessary steps to achieve consolidation, on 31 March 2011, Banco Montepio acquired from MGAM, through a share purchase agreement, 100 per cent. of the share capital and of the voting rights of Finibanco-Holding, SGPS, S.A. (now Montepio Holding, SGPS, S.A.) and, indirectly, all of the share capital and the voting rights of Finibanco, S.A. ("**Finibanco**", now Montepio Investimento, S.A.), as well as those of Finicrédito – Instituição Financeira de Crédito, S.A. (now Montepio Crédito, Instituição Financeira de Crédito, S.A.) and those of Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A. (now Montepio Valor – Sociedade Gestora de Fundos, S.A.).

Finibanco Holding. SGPS, S.A., the holding company of the Portuguese financial group "Finibanco" (the "**Finibanco Group**"), comprised a number of subsidiaries which included, among others, a bank (Finibanco), an Angolan bank (Finibanco Angola), a credit financial institution (Finicrédito, Instituição Financeira de Crédito, S.A.) and an asset management company (Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A.).

Under the share purchase agreement, Banco Montepio indirectly acquired 81.6 per cent. of the share capital and the voting rights of Finibanco Angola. As a result of these acquisitions, Banco Montepio's consolidated supervision perimeter now encompasses all the aforementioned companies.

As at December 2013, in the context of its restructuring, the MGAM Group undertook a reorganisation of its financial investments associated with the insurance and pension sectors. In this context, on 27 December 2013 Montepio Seguros, S.G.P.S., S.A. ("**Montepio Seguros**") was created in order to manage the equity of such sectors. Banco Montepio sold the shares directly held in Futuro, Lusitania Vida and Lusitania to Montepio Seguros. Additionally, Banco Montepio acquired 33.65 per cent. of the capital of Montepio Seguros. On 30 December 2015, Banco Montepio sold its shareholding in Montepio Seguros.

In 2013, some of Banco Montepio's capital became open to public investment for the first time. On 25 November 2013, Banco Montepio launched an initial public offer ("**IPO**") of €200 million securities (*Unidades de Participação*) representative of its participation fund (*Fundo de Participação*) ("**Participation Fund**"). On 17 December 2013, the securities were admitted to listing on Euronext Lisbon after the Regulated Market Special Session.

On 2 December 2014, Montepio Holding SGPS, S.A. acquired a stake of 44.6 per cent. in BTM's share capital, acquiring management control following an agreement with the remaining shareholders of the bank (Rabobank, based in the Netherlands, holding identical equity participation as the Banco Montepio Group; Norfund, also known as the Norwegian Investment Fund for Developing Countries, with an equity participation of 8.4 per cent.; and GAPI-SI, S.A., a financial institution that has the aim of contributing to economic and social development of Mozambique, with an equity participation of 2.5 per cent.).

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

The Savings Banks Act further determines that only mutual associations (associações mutualistas), charities (misericórdias) or other beneficence institutions can hold the majority of the capital or the voting rights in a savings bank (caixa económica bancária).

In 2016, the Issuer was characterised as a full service savings bank (*caixa económica bancária*) following the enforcement of the Savings Bank Act and the resolution of Banco de Portugal pursuant to paragraph 2 of the Savings Bank Act (which provides that, unless otherwise determined at any time by Banco de Portugal, full service savings banks already in existence upon the entry into force of the new legislation shall not be automatically required to arrange for their conversion into public limited liability companies). An Extraordinary General Meeting of Banco Montepio was convened for 22 November 2016, to deliberate on the transformation of Banco Montepio into a public limited liability company and the consequent amendment of its Articles of Association.

The participants in the Extraordinary General Meeting approved by majority to transform Banco Montepio into a public limited liability company (*sociedade anónima*) and to amend the Articles of Association. The project for the amended Articles of Association was approved in its entirety, without prejudice to the reconsideration of some matters depending on the recommendations or decisions conveyed by the supervising authorities. As the knowledge of such recommendations or decisions was key to the conclusion of the matters being discussed the session was suspended until 13 December 2016.

The Extraordinary General Meeting was resumed on 13 December 2016 and on 4 April 2017 in order to approve all the required procedures regarding the transformation into a public limited liability company. The effectiveness of such resolutions were conditional on (i) ratification by the General Meeting of MGAM, to be held no later than 9 May 2017; and (ii) their respective registration. Upon these conditions being met, Banco Montepio’s capital should be represented in full by ordinary shares. These two conditions were met respectively on 9 May 2017 and 14 September 2017. Consequently, Banco Montepio’s total share capital, in the amount of €2,420,000,000 was fully represented by ordinary shares.

In December 2018, the Banco Montepio Group sold its 45.8 per cent. holding in BTM, reducing its international branches by 10. For further information, please refer to section “- *International Activity*”.

Strategy

The Issuer’s strategic plan aims to ensure profitability, the strengthening of capital and the maintenance of liquidity levels above minimum regulatory requirements. The plan prioritises the increase of core net operating income, capital management, risk management reinforcement, business efficiency, liquidity management, human resources management and corporate governance (the “**Strategic Plan**”).

The Board of Directors, which took up office on 21 March 2018, is committed to enhancing the efficiency, profitability and adequacy of Banco Montepio's business model so that it meets demanding contemporary customer requirements.

The Board of Directors launched a transformation plan to analyse Banco Montepio's existing position and establish a vision for Banco Montepio with clear options and specific business goals for the medium and long term (“**Transformation Plan**”).

Banco Montepio's Transformation Plan defines the Issuer's strategy and business goals for the medium and long-term, aiming to achieve six critical goals: (i) maintain a sustainable business model, through an economically profitable business model with adequate creation of value for shareholders; (ii) strengthen Banco Montepio's position as a reference financial institution, by supporting the welfare of Portugal's citizens, offering services and banking solutions to the segments of the population that are least benefited by banking services; (iii) develop new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (“**SMEs**”) and for different segments of individual customers; (iv) increase the efficiency of commercial structures, develop new internal processes and new forms of working; (v) enhance Banco Montepio's robustness as a bank of relations and proximity, whether personally or through technological innovation; (vi) improve quality of assets, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the construction and real estate activity sectors.

Banco Montepio's strategy to accomplish these goals will be conducted through four pillars, supported on their vectors of action, as indicated below:

Value and business proposition:

- Develop a new product bundling model for individuals and companies differentiated by segments with the aim of increasing customer loyalty;
- Develop a management model to improve customers' experience;
- Increase mortgage loans origination, enhancing the anchor effect with competitive service and pricing aligned with the market;
- Strengthen the consumer and specialised credit business;
- Reinforce and maintain the strategy of support and follow-up to Entrepreneurship and Social Innovation;
- Strengthen its qualities as a bank that promotes the welfare of Portugal's citizens, by providing an offer built on partnerships with value propositions for entities that also support the welfare of Portugal's citizens;
- Expand the products and services provided to the corporate sector through the development of Montepio Investimento S.A. (also known as “BEM - Banco de Empresas Montepio”) by offering a broad range of specialised products and services integrating commercial banking and investment banking;
- Reduce its funding cost through an active portfolio repricing policy, namely with respect to the reduction on deposit rates it pays.

Strengthening of the balance sheet:

- Review the credit risk management processes, scoring/rating models and definition of risk appetite;
- Make the credit analysis and decision more efficient and customer driven, with a single credit decision maker per business segment and with entirely independent determination of impairment;
- Restructure and strengthen the internal model of credit recovery NPLs;
- Reinforce the link between credit recovery and real estate management.

Organisation:

- Simplify the organisational structure focused on the efficiency and effectiveness of the Issuer's operating model;
- Adapt its branch models to support the digital experience and expand remote customer management;
- Open low-cost branches, with a small number of employees, in locations with a low offer of financial services;
- Develop a talent management model and strengthen people skills;
- Develop and implement employees’ compensation and incentive model.

Support:

- Implement a new centralised and comprehensive cost management model;
- Continue to gradually reduce manual paper-based documentation processes in other business processes;
- Create a 5 to 10-year information technology system plan, with appropriate levels of investment (CAPEX) and operating costs (OPEX).

The Issuer has adopted a new image and brand as “Banco Montepio”, reflecting the internal transformation being developed and implemented based on a new vision, as an independent Portuguese bank, growing increasingly closer to the Portuguese.

Current Activities

The Issuer operates as a 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.

In May 2019, Montepio Investimento S.A. was relaunched with a new brand, called Banco Empresas Montepio. This new project aims to bring together Banco Empresas Montepio's corporate banking and investment banking in one entity, presenting an integrated offer in the areas of corporate finance, debt and equity capital markets, advisory, structured finance, equity and debt distribution along with lending services.

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, Banco Montepio Group currently has five representative offices in Paris, Toronto, Geneva, Frankfurt and Newark.

Since the end of 2014, Banco Montepio Group's international operation has been carried out by three entities – Banco MG Cabo Verde, S.A., Finibanco Angola and until the end of 2018, BTM.

Banco Montepio Group's international operation is undergoing a reorganisation and resizing process with a view to redefining its African exposures and focusing only on those opportunities which complement its strategic goals. 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 Banco Montepio Group is one of the main Portuguese financial groups in retail banking, with its core business focused on the domestic market, while also developing activities abroad.

As a comprehensive and diversified group, it provides its individual customers, corporates (focused on SMEs and middle market companies), and for the benefit of Portugal's citizens as a whole a universal offer of complementary products and services through its domestic distribution network. Banco Montepio Group's international operation has been developed through the stakes held in Finibanco Angola, Banco MG Cabo Verde, BTM (until the end of 2018) and several representative offices.

In 2015, following a strategic review of its international business and its to increase its focus on domestic operations, Banco Montepio entered into an agreement to sell shares representing 30.57 per cent. of the share capital of Finibanco Angola. The agreement was executed and the respective payments will be settled over the time. Under this agreement, Banco Montepio sold shareholdings of 0.20 per cent. and 1.15 per cent. of the share capital of this subsidiary in 2017 and 2018 respectively. Thus, as at 31 December 2018, the Banco Montepio Group still had control of Finibanco Angola and an effective stake of 80.2 per cent., and a series of steps are underway for the deconsolidation of this subsidiary.

In a public announcement, on 10 May 2019 Banco Montepio announced that its subsidiary Montepio Holding, SGPS, S.A. started negotiations with shareholders of Banco de Negócios Internacional, S.A. (Angola) with a view to a merger between Finibanco Angola S.A. and Banco de Negócios Internacional, S.A. (Angola). It is the intention of the parties to attract the participation of international strategic partners for this operation, thus contributing to the consolidation, strengthening and opening up of the Angolan banking and financial system. The Angolan and Portuguese regulatory authorities were informed about this negotiation process. The development and conclusion of the negotiations are dependent on the necessary procedures with the shareholders and the Angolan authorities, as well as on the results of the Angolan program to assess the banking system's asset quality, which is currently under way in Angola. The National Bank of Angola has been assessing the quality of the assets of the commercial banks in Angola since April this year, with a view to learning about the financial health of these institutions. The move is part of the recommendations of the International Monetary Fund, under the agreement signed with the Angolan government, which also entails assessment of the credits granted by commercial banks, in order to obtain an accurate assessment of the country's banking sector. Upon the successful completion of this process, Banco Montepio will accomplish the strategic goal already announced of reducing its stake in Finibanco Angola S.A. in order to remove it from the Banco Montepio Group. In accordance with the outcome of the process and the potential execution of the transfer of shares, Banco Montepio will provide the necessary information in a press release disclosed on CMVM's website.

Analysis of the Issuer's financial performance

2018 consolidated activity and results (audited)

In 2018, Banco Montepio carried out several initiatives aimed at the development and implementation of an economically sustainable business model, in order to provide stable profitability, reduce NPEs and enable the organic growth of capital levels and liquidity buffers. Accordingly, the Issuer continued to deleverage its balance sheet, which resulted in reductions in its non-performing loan portfolio and real estate exposures. In addition, the Issuer's liquidity position was strengthened by attracting and retaining customer deposits and actively managing its securities portfolio to meet regulatory capital and liquidity requirements.

The table below sets out the Issuer's consolidated balance sheet as at 31 December 2017 and 31 December 2018.

CONSOLIDATED BALANCE SHEET

(€ million)

	31 December 2017	**31 December 2018**	Change 18/17	
			Amount	%
Cash and deposits at central banks and loans and advances to credit institutions	2 096	1 899	(197)	(9.4)
Loans to customers	13 029	12 123	(906)	(7.0)
Securities portfolio and other financial assets*	2 385	2 216	(169)	(7.1)
Non current assets held for sale and investment properties	1 281	991	(290)	(22.6)
Non current assets held for sale - Discontinuing operations	474	295	(179)	(37.9)
Current and deferred tax assets	473	471	(2)	(0.4)
Other	462	356	(106)	(22.8)
Total assets	**20 200**	**18 351**	**(1 849)**	**(9.2)**
Deposits from central banks and OCI	3 345	2 641	(704)	(21.0)
Customers' resources	12 561	12 575	14	0.1
Issued debt	1 780	1 144	(636)	(35.7)
Non current liabilities held for sale - Discontinuing operations	330	194	(136)	(41.3)
Other	421	260	(161)	(38.1)
Total liabilities	**18 437**	**16 814**	**(1 623)**	**(8.8)**
Share capital	2 420	2 420	-	-
Reserves. retained earnings and other	(663)	(896)	(233)	(35.1)
Net income	6	13	6	94.4
Total equity	**1 763**	**1 537**	**(226)**	**(12.8)**
Total liabilities and equity	**20 200**	**18 351**	**(1 849)**	**(9.2)**

* In 2018 includes instruments at fair value through profit or loss. namely loans that do not meet the SPPI (Solely Payments of Principal and Interest) tests.

Capital

Banco Montepio increased its capital ratios as at 31 December 2018 to a CET1 ratio of 13.5 per cent. and a Total Capital ratio of 14.1 per cent. compared to 13.2 per cent. and 13.3 per cent., respectively, as at 31 December 2017. This increase was driven by the performance of CET1, which reached €1,457 million as at 31 December 2018 compared with €1,572 million as at 31 December 2017, coupled with a reduction of €1,116 million or 9.4 per cent. in risk-weighted assets due to the deleveraging process and an efficient management of risk allocation in loans and its debt securities portfolios.

The decrease in CET1 as at 31 December 2018 was primarily caused by the adverse impact of the increase in reserves and retained earnings of €208 million and the decrease in minority interest eligible to CET1 of €5 million, notwithstanding the favourable decrease in the regulatory adjustments of €98 million.

The reduction of risk-weighted assets reflects the deleveraging effort in non-core assets that has progressively been accomplished, namely in non-performing loans and real estate properties, alongside the improvements made in the process of loan approval and granting of loans with low risk backed by collateral.

As at 31 December 2018, Banco Montepio's fully implemented CET1 ratio reached 11.4 per cent. and the Total Capital ratio 12.0 per cent. compared with 11.6 per cent. and 11.9 per cent., respectively, as at 31 December 2017.

The table below sets out the Issuer's capital and capital requirements as at 31 December 2017 and 31 December 2018.

CAPITAL AND CAPITAL REQUIREMENTS

(€ million)

	31 December 2017	**31 December 2018**	Change18/17 Amount	%
Total own funds				
Common Equity Tier 1	1 572	1 457	(115)	(7.4)
Tier 1	1 572	1 457	(115)	(7.3)
Total Capital	1 580	1 513	(67)	(4.2)
Risk-weighted assets	**11 875**	**10 759**	**(1 116)**	**(9.4)**
Phasing-in ratios				
Common Equity Tier 1	13.2%	13.5%	30 bp	
Tier 1	13.2%	13.5%	30 bp	
Total Capital	13.3%	14.1%	80 bp	
Fully implemented ratios				
Common Equity Tier 1	11.6%	11.4%	(20) bp	
Tier 1	11.7%	11.4%	(30) bp	
Total Capital	11.9%	12.0%	10 bp	
Leverage ratios				
Phasing-In	7.6%	7.8%	20 bp	
Fully implemented	6.8%	6.6%	(20) bp	

Note: Ratios reflect adherence to the special deferred tax assets regime.

The table below sets out a summary of the calculation for Banco Montepio Group's capital requirements as at 31 December 2018 and 31 December 2017, under phasing-in:

		(€ Thousands)
	31 December 2018	**31 December 2017**
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit. reserves and retained earnings	(904 940)	(696 238)
Minority interests eligible for CET1	6 597	11 921
Other regulatory adjustments	(65 129)	(163 520)
	1 456 528	1 572 163
Capital Tier 1		
Minority interests eligible for Tier 1	382	3 158
Regulatory adjustments	-	(3 158)
	1 456 910	1 572 163
Capital Tier 2		
Subordinated loans	56 323	24 250
Minority interests eligible for Tier 2	-	-
Regulatory adjustments	-	(16 166)
	56 323	8 084
Total own funds	1 513 233	1 580 247
Own funds requirements		
Credit risk	747 151	825 814
Market risk	8 501	28 093
Operating risk	61 884	57 748
Other requirements	43 147	38 325
	860 683	949 980
Prudential Ratios		
Common Equity Tier 1 Ratio	13.54%	13.24%
Tier 1 Ratio	13.54%	13.24%
Total Capital Ratio	14.07%	13.31%

Customers' resources

Throughout 2018, Banco Montepio developed a series of initiatives related to the attraction and retention of customer resources, through appropriate management aimed at diversifying its funding sources.

Total customers' resources amounted to €13,432 million as at 31 December 2018, of which €12,756 million correspond to on-balance sheet customers' resources and 98.6 per cent. comprising customer deposits.

As at 31 December 2018, customer deposits amounted to €12,575 million, of which the most significant source were deposits from individual customers, constituting 75.6 per cent. of total deposits (as compared to 73.4 per cent. as at 31 December 2017).

Customer deposits as at 31 December 2018 grew by €14 million as compared to 31 December 2017, notwithstanding the context of historically low interest rates and the more competitive environment.

As at 31 December 2018, securities placed with customers amounted to €181 million, compared to €617 million as at 31 December 2017, reflecting the maturity of securitised debt.

Off-balance sheet customer resources reached €676 million as at 31 December 2018, compared to €709 million recorded as at 31 December 2017, mainly reflecting the decrease observed in securities investment funds and capitalisation insurance, alongside the increase recorded in pension funds and real estate investment funds.

The table below sets out the Issuer's customers' resources as at 31 December 2017 and 31 December 2018.

CUSTOMERS' RESOURCES

(€ million)

	31 December 2017	31 December 2018	Change 18/17	
			Amount	%
Customer Deposits	**12 561**	**12 575**	**14**	**0.1**
Sight Deposits	3 509	3 999	490	14.0
Term Deposits	9 052	8 576	(476)	(5.3)
Securities placed with Customers	617	181	(436)	(70.7)
Total On-Balance sheet resources	**13 178**	**12 756**	**(422)**	**(3.2)**
Off-Balance sheet resources	709	676	(33)	(4.7)
Total Customers' resources	**13 887**	**13 432**	**(455)**	**(3.3)**

Issued Debt

As at 31 December 2018, the amount of issued debt fell by 35.7 per cent., standing at €1,144 million, compared to €1,780 million recorded as at 31 December 2017, as a result of the decrease recorded both in debt securities issued (a decrease of 29.2 per cent.) and in other subordinated debt (a decrease of 78.8 per cent.). The decrease of €636 million reflects the repayment upon maturity of senior and subordinated debt issuances and takes into account the issuance of €50 million of subordinated debt issued at the end of 2018.

Liquidity

In 2018, Banco Montepio continued to develop a series of initiatives to support its liquidity position, in compliance with its regulatory requirements and as defined in the Transformation Plan.

Banco Montepio's balance-sheet management enabled its Liquidity Coverage Ratio (LCR) to reach 160.5 per cent. as at 31 December 2018, compared to the ratio of 153.2 per cent. as at 31 December 2017, and above the minimum regulatory requirement of 100 per cent. applicable in 2018.

Banco Montepio's loan-to-deposit ratio, calculated in accordance with Banco de Portugal instruction number 16/2004, was 96.6 per cent. as at 31 December 2018, compared to 107.3 per cent. as at 31 December 2017.

The table below sets out the Issuer's liquidity ratios as at 31 December 2017 and 31 December 2018.

LIQUIDITY RATIOS

	31 December 2017	31 December 2018	Change 18/17
Loans to customers (net) / Customers' deposits [(a)]	107.3	96.6	(10.7 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources	92.4	88.7	(3.7 p.p.)

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance with the financial statements annexed to the Annual Report 2018.

Banco Montepio's use of ECB funds as at 31 December 2018 was 10.5 per cent. lower than as at 31 December 2017, a reduction of €163 million. As at 31 December 2018, the use of the pool of collateral in Eurosystem operations stood at €1,395 million, compared to €1,558 million recorded at the end of 2017, considering the value of the associated interest. The total value of the pool of eligible assets at the end of 2018 showed an increase of €53 million compared with 31 December 2017.

The use of Eurosystem monetary policy operations falls under the support given to the economy, with a view to optimising the long-term funding, namely through participation in TLTRO-II ("**Targeted Longer-term Refinancing Operations**"), in the context of the non-conventional expansionary monetary policy measures implemented by the ECB. In terms of available collateral for obtaining liquidity, the value of the available ECB eligible assets increased by 20.8 per cent. from €1,037 million the end of 2017 to €1,253 million as at 31 December 2018.

The table below sets out the Issuer's pool of eligible assets for refinancing options with the ECB as at 31 December 2017 and 31 December 2018.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(€ million)

	31 December 2017	**31 December 2018**	Change 18/17	
			Amount	%
Pool of eligible assets [(a)]	2 595	2 648	53	2.0
Use of the pool	1 558	1 395	(163)	(10.5)
Pool of available assets	**1 037**	**1 253**	**216**	**20.8**

(a) Includes eligible assets. free of charge. for operations in the MIC (Collateralised Interbank Market).

Repurchase agreement operations ("**Repos**") showed a reduction of €402 million as at 31 December 2018, having decreased from €1,275 million as at 31 December 2017 to €873 million as at 31 December 2018, reflecting the reduction of funding needs due to the improvement in Banco Montepio's liquidity position.

At the end of 2018, Banco Montepio did not record any amount provided or taken of funds in the interbank money market and collaterised interbank market of euros ("**MIC**").

Asset Quality

As at 31 December 2018, loan portfolio (gross) amounted to €13,068 million, reflecting a decrease of 7.1 per cent. in relation to the value of €14,063 million recorded as at 31 December 2017. The decrease in loan portfolio (gross) was primarily caused by portfolio amortisations being above new origination levels and the sale of NPL portfolios. This was also caused by the low demand for new loans.

In 2018, Banco Montepio continued to develop its credit approval processes with a view to accomplishing the strategic objective of improving asset quality and, in turn, foster an improvement in credit quality indicators, based on a reduction of risk concentration, in particular in the construction and real estate development sectors.

The loan portfolio as at 31 December 2018 recorded a year-on-year decrease of €995 million. The decrease in gross loans to companies was primarily a result of changes in the sectors of trade (a decrease of 18.8 per cent. compared to 2017) and construction and public works and real estate activities (a decrease of 13.8 per cent. compared to 2017). The decrease in gross loans for individuals, was primarily due to changes in housing loans (a decrease of 6.6 per cent. compared to 2017). This decrease in the size of the loan portfolio continues to show a higher level of amortisation in relation to new loan origination and the sale of a NPL portfolio in the gross amount of €239 million and loan write-offs of the value of €150 million.

Under the Transformation Plan, the improvement of credit quality is also based on a more effective and integrated management of NPLs, by maximising recoveries and investment banking solutions, benefiting from the strategic focus on the segments of individuals and companies, and in particular SMEs and entities that support the welfare of Portugal's citizens.

The table below sets out the Issuer's loan portfolio as at 31 December 2017 and 31 December 2018.

LOAN PORTFOLIO
(By sector of activity)

(€ million)

	31 December 2017	31 December 2018	change 18/17	
			Amount	%
Individuals	**7 871**	**7 384**	**(487)**	**(6.2)**
Housing loans	6 692	6 252	(440)	(6.6)
Others	1 179	1 132	(47)	(4.0)
Companies	**6 192**	**5 684**	**(508)**	**(8,2)**
Wholesale and retail trade	1 063	863	(200)	(18.8)
Construction and Public works, and Real estate activities	1 774	1 529	(245)	(13.8)
Financial Activities	641	582	(59)	(9.1)
Tourism	497	432	(65)	(13.1)
Transports	476	410	(66)	(13.7)
Manufacture of food products, beverages and tobacco, and Basis metallurgic industries and metallic products	401	366	(35)	(8.7)
Others	1 340	1 502	162	12.0
Gross loans	**14 063**	**13 068**	**(995)**	**(7.1)**
Balance sheet impairment	**1 034**	**945**	**(89)**	**(8.6)**
Net loans	**13 029**	**12 123**	**(906)**	**(7.0)**

Throughout 2018, Banco Montepio carried out a series of initiatives aimed at reducing its exposure to NPLs, including loan write-offs amounting to €150 million.

The balance of NPEs improved compared to the value recorded as at 31 December 2017, standing at €1,879 million as at 31 December 2018, representing 14.4 per cent. of the gross loan portfolio, compared to 16.4 per cent. as at 31 December 2017.

The coverage of NPEs by balance sheet impairment and associated collateral and financial guarantees stood at 86.2 per cent. as at 31 December 2018, compared to 87.0 per cent. as at 31 December 2017, while the coverage only by balance sheet impairments (not including associated collateral and financial guarantees) amounted to 50.3 per cent., as compared to 44.9 per cent. as at 31 December 2017.

The total impairments for credit risk reached €945 million as at 31 December 2018, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 103.4 per cent. Moreover, the coverage of NPEs stood at 50.3 per cent., while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 86.2 per cent.

The table below sets out the Issuer's loan quality indicators as at 31 December 2017 and 31 December 2018.

LOAN QUALITY INDICATORS

(€ million)

	31 December 2017	31 December 2018	Change 18/17	
			Amount	%
Gross loans to customers	14 063	13 068	(995)	(7,1)
Loans and interest overdue by more than 90 days	1 146	914	(232)	(20,3)
Loans impairment	1 034	945	(89)	(8,6)
Ratios (%)				
Cost of credit risk	1,1	0,5	(0,6 p.p.)	

Loans and interest overdue by more than 90 days	8,2	7,0	(1,2 p.p.)
Non-performing exposures (NPE) (a) / Gross loans to customers	16,4	14,4	(2,0 p.p.)
Forborne exposures (a) / Gross loans to customers	8,2	7,2	(1,0 p.p.)
Coverage by Impairments for balance sheet loans (%)			
Loans and interest overdue by more than 90 days	90,2	103,4	13,2 p.p.
Non-performing exposures (NPE) (a)	44,9	50,3	5,4 p.p.
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	87,0	86,2	(0,8 p.p.)

(a) EBA definition.

The following table sets out the Banco Montepio Group's credit risk exposure as at 31 December 2017 and 31 December 2018:

(€ Thousands)

	31 December 2017	31 December 2018
Loans and advances to credit institutions repayable on demand	50 205	78 088
Other loans and advances to credit institutions	312 203	209 932
Loans and advances to customers	13 029 318	12 123 212
Financial assets held for trading	174 175	23 739
Financial assets not held for trading mandatorily at fair value through profit or loss	-	28 092
Financial assets at fair value through other comprehensive income	1 658 409	311 512
Hedging derivatives	-	5 666
Other financial assets at amortised cost	-	1 255 651
Investment in associates	4 097	4 282
Other assets	184 245	75 228
Guarantees granted	500 063	464 929
Irrevocable credit facilities	609 515	553 073
	16 522 230	15 133 404

In 2018, Banco Montepio continued to pursue its strategy of rebalancing its asset structure by identifying and implementing measures aimed at improving its liquidity levels and actively managing its portfolio of securities and other instruments.

As at 31 December 2018, Banco Montepio's portfolio of securities and other instruments amounted to €2,216 million, compared to €2,385 million as at 31 December 2017 (a decrease of 7.1 per cent.). The value of the portfolio of securities and other instruments as at 31 December 2018 in comparison to the end of 2017 reflects the sale of public debt securities throughout 2018 and the constitution of a portfolio of other financial assets at amortised cost of public debt in 2018.

As at 31 December 2018, €951.2 million or 7.3 per cent. of the Issuer's loan portfolio, including past due interest, was in default compared with €1,227.6 million or 8.7 per cent. as at 31 December 2017.

The analysis of overdue loans and interest during the year ended 31 December 2017 and during the year ended 31 December 2018, by type of customer and purpose, is as follows:

(€ Thousands)

	For the year ended 31 December	
	2017	2018
Corporate		
Construction/ Production	267 222	197 762
Investment	490 234	347 800
Treasury	212 935	187 479
Other loans	47 514	36 039
Retail		
Mortgage loans		81 558
Consumer credit		46 664
Other loans		53 880
		951 183

The following table sets forth the default period of time for non-performing loans during the year ended 31 December 2017 and the year ended 31 December 2018:

(€ Thousands)

	For the year ended 31 December	
	2017	2018
Overdue loans and interests		
Below 90 days	81 350	37 298
Above 90 days	1 146 222	913 885
	1 227 572	951 183

As at 31 December 2018, the balance of loans and advances to customers related to the issue of covered bonds held by Banco Montepio amounted to €2,728,028 thousand compared with €2,726,854 thousand as at 31 December 2017.

Earnings

For the year ended 31 December 2018, Banco Montepio's consolidated net income amounted to €12.5 million, compared to €6.4 million in 2017.

The net income for 2018 reflects the reduction of allocations for impairments and provisions and the reduction in operating costs which was offset by the decrease in net interest income, net fees and commissions, results from financial operations and other operating income. A significant cause of the decrease in results from financial operations and in other operating income in 2018 was the higher level of gains recorded in 2017 as a result of the sale of public debt portfolios.

Banco Montepio's net income for 2018 was negatively impacted by several factors which are not related to the core business of Banco Montepio, namely:

- The sale of BTM., which led to a decrease of €3.7 million in net income, due to the recycling of the negative foreign exchange reserves, despite the fact that BTM was sold at a value higher than its book value;
- The sale of a portfolio of NPLs, for the gross amount of €239 million, which led to a reduction of €8.4 million in net income;

- The cost with the foreign exchange risk hedging of a stake denominated in Brazilian Reals, carried out as a capital preservation measure, amounting to €4.1 million; and

- The provision for an administrative fine resulting from an administrative proceeding imposed by Banco de Portugal related to events occurred in the period between 2009 and 2014, amounting to €2.5 million. For further information, see "*Description of the Issuer – Legal and arbitration proceedings*".

The table below sets out certain items from the Issuer's income statement for the year ended 31 December 2017 and 31 December 2018.

(€ million)

	For the year ended 31 December		Change 18/17	
	2017	2018	Amount	%
Net interest income	**266.2**	**248.1**	**(18.1)**	**(6.8)**
Commercial net interest income	*279.0*	*256.9*	*(22.1)*	*(7.9)*
Net fees and commissions	119.8	118.4	(1.4)	(1.2)
Core total operating income	**386.0**	**366.5**	**(19.5)**	**(5.1)**
Income from equity instruments	12.6	8.1	(4.5)	(35.8)
Results from financial operations	70.7	10.9	(59.8)	(84.6)
Other operating income	35.9	(8.1)	(44.0)	-
Total operating income	**505.2**	**377.4**	**(127.8)**	**(25.3)**
Staff Costs	156.2	156.0	(0.2)	(0.1)
General and administrative expenses	87.0	77.7	(9.3)	(10.7)
Depreciation and amortisation	24.8	25.9	1.1	4.4
Operating costs	**268.0**	**259.6**	**(8.4)**	**(3.1)**
Net operating income before provisions and impairments	**237.2**	**117.8**	**(119.4)**	**(50.3)**
Net provisions and impairments	191.4	93.5	(97.9)	(51.1)
Share of profit of associates under the equity method	0.2	0.2	0.0	20.5
Net income before income tax	**46.0**	**24.5**	**(21.5)**	**(46.7)**
Income tax	(42.4)	(44.8)	(2.4)	(5.7)
Net income after income tax from continuing operations	**3.6**	**(20.3)**	**(23.9)**	**(<100)**
Income from discontinuing operations	4.2	36.1	31.9	>100
Non-controlling interests	1.4	3.3	1.9	>100
Net Income	**6.4**	**12.5**	**6.1**	**94.4**

Total operating income amounted to €377.4 million in 2018, compared to €505.2 million in 2017. The decrease in total operating income was due to the decrease in net interest income and in results from financial operations, which reflects the impact of the lower gains from the sale of Portuguese public debt securities (€8.2 million in 2018 compared to €73.4 million in 2017).

Net interest income amounted to €248.1 million in 2018, compared to €266.2 million in 2017. The decrease in net interest income was caused by lower interest income from the Issuer's loan portfolio and securities portfolio, partially off-set by the reduction in interest paid on customer deposits and issued debt.

In 2018, on the assets side, there was a decrease in interest income from the Issuer's loan portfolio of €49.8 million due to volume and price effects, reflecting in particular the deleveraging of NPLs. Average interest rates on customer loans decreased from 2.43 per cent. in 2017 to 2.26 per cent. in 2018, reflecting the effect of the repricing of credit, in a context where the main reference interest rates have remained low.

Interest income from Banco Montepio's securities portfolio in 2018 also showed a decrease of €24.7 million compared to 2017, due to volume and price effects, reflecting the impact of the sales of public bonds carried out during 2017. At the same time, the average interest rate of the portfolio decreased from 1.46 per cent. in 2017 to 0.66 per cent. in 2018.

On the liabilities side, net interest income benefited from the positive impact of the decrease of the cost of customer deposits of €27.8 million, via the price effect, reflecting the impact of the reduction of the average rate from 0.70 per cent. in 2017 to 0.45 per cent. in 2018, demonstrating the pricing management applied to the attraction of new deposits and in the rollover of existing deposits.

The interest paid on the debt issued by the Issuer also contributed positively to the net interest income variation between 2017 and 2018, both via the price effect and volume effect, with the interest paid for senior debt having fallen by €19.6 million in comparison to 2017.

As a consequence of the above, net interest income margin stood at 1.43 per cent. in 2018, compared to 1.45 per cent. in 2017, primarily reflecting the low interest rate environment and competitive dynamics that continue to limit the performance of net interest income.

The table below sets out a breakdown of the Issuer's net interest income for the year ended 31 December 2017 and 31 December 2018.

BREAKDOWN OF NET INTEREST INCOME

(€ million)

	For the year ended 31 December					
	2017			2018		
	Avg. amount	**Avg. rate (%)**	**Interest**	**Avg. amount**	**Avg. rate (%)**	**Interest**
Assets						
Cash and deposits	469	0.00	0.0	1 371	1.01	14.0
Loans and advances to OCI	414	0.94	4.0	324	0.78	2.6
Loans to customers	14 738	2.43	363.7	13 709	2.26	313.9
Securities portfolio	2 471	1.46	36.5	1 733	0.67	11.8
Other (includes derivatives)			16.4			19.5
subtotal	18 092	2.29	420.6	17 137	2.08	361.7
Liabilities						
Resources from central banks	2 322	0.04	1.0	1 540	0.32	5.0
Resources from OCI	2 057	0.66	13.7	1 637	0.95	15.8
Customers' deposits	11 919	0.70	84.7	12 390	0.45	56.9
Senior debt	1 540	2.44	38.1	1 287	1.42	18.6
Subordinated debt	249	1.20	3.0	91	1.24	1.1
Other (includes derivatives)			13.9			16.2
subtotal	18 087	0.84	154.4	16 944	0.66	113.6
Net interest income		**1.45**	**266.2**		**1.43**	**248.1**

Net fees and commissions related to services provided to customers amounted to €118.4 million in 2018, a decrease of 1.2 per cent. compared to 2017, reflecting a decrease of loan fees and commissions of €2.7 million and a decrease in other fees and commissions (including fees for insurance mediation, provision of banking services and operations provided on account of third parties) of €3.1 million, partially offset by the increase recorded in fees and commissions of payment services (including fees for deposit, custody, administration and collection of values, account maintenance, management, annuities, withdrawals subject to fees and commissions and credit card incidences) of €3.4 million and the increase in market fees and commissions (including fees for management, administration and custody of assets and operations on securities) of €0.9 million.

The table below sets out the Issuer's net interest income for the year ended 31 December 2017 and 31 December 2018.

(€ Thousands)

	For the year ended 31 December	
	2017	**2018**
Interest and similar income		
Loans and advances to customers	363 701	313 769
Deposits and other short-term investments	3 978	16 601
Financial assets held-for-trading	15 861	14 258
Financial assets at fair value through other comprehensive income	22 971	7 869
Derivative hedging instruments	1 348	6 563
Other financial assets at amortised cost	12 504	2 230
Non-trading financial assets mandatorily at fair value through profit or loss	-	338
Other interest and similar income	268	80
	420 631	361 708
Interest and similar expense		
Deposits from customers	84 696	56 912
Securities issued	38 110	18 550
Deposits from central banks and other credit institutions	14 692	20 810
Financial liabilities held-for-trading	13 100	12 474
Derivative hedging instrumets	762	3 707
Other subordinated liabilities	3 038	1 140
Other interest and similar expense	7	11
	154 405	113 604
Net interest income	266 226	248 104

Results from financial operations amounted to €10.9 million in 2018, compared to €70.7 million recorded in 2017, due to lower gains from the sale of public debt, namely Portuguese public debt securities (€8.2 million in 2018 compared to €73.4 million in 2017), as well as lower results arising from foreign exchange differences by incorporating the cost with the foreign exchange hedging of a stake denominated in Brazilian Reals.

RESULTS FROM FINANCIAL OPERATIONS

(€ million)

	2017	**2018**	Change 18/17	
			Amount	%
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(14.8)	12.3	27.1	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	83.6	5.6	(78.0)	(93.3)
Net gains / (losses) from foreign exchange differences	1.9	(7.0)	(8.9)	-
Results from financial operations	**70.7**	**10.9**	**(59.8)**	**(84.6)**

of which: Results from the sale of Portuguese public debt	*73.4*	*8.2*	*(65.2)*	*(88.8)*

Operating costs amounted to €259.6 million in 2018, representing a 3.1 per cent. decrease in relation to the value recorded in 2017, underpinned by the reduction of general administrative expenses of €9.3 million (a decrease of 10.7 per cent.) and staff costs of €0.2 million (a decrease of 0.1 per cent.), notwithstanding the increase recorded in amortisation and depreciation of €1.1 million (an increase of 4.4 per cent.).

Staff costs in 2018 amounted to €156.0 million, compared with €156.2 million in 2017, and include the negative impacts of the unfreezing of salaries and careers, the increase in costs with the pension fund and of compensation payments to previous members of the Management and Supervisory Bodies, while at the same time having benefited from the positive impact of the reclassification of income from employee assignment.

General and administrative expenses decreased to €77.7 million in 2018 from €87.0 million in 2017, reflecting a decrease in expenses with specialised services of 6.9 per cent. (a decrease of €2.5 million), in advertising and publications of 31.3 per cent. (a decrease of €1.7 million) and in other administrative expenses of 29.2 per cent. (€3.2 million).

Depreciation and amortisation amounted to €25.9 million, having grown by 4.4 per cent. in comparison to 2017, caused by the performance of real estate properties and software.

In 2018, the Issuer's cost-to-income ratio, excluding the results from financial operations and other results (results arising from the sale of other financial assets and other operating income), stood at 69.3 per cent., compared to 67.2 per cent. calculated in 2017.

The table below sets out the Issuer's operating costs for the year ended 31 December 2017 and 31 December 2018.

OPERATING COSTS

(€ million)

	For the year ended 31 December		Change 18/17	
	2017	**2018**	Amount	%
Staff Costs	156.2	156.0	(0.2)	(0.1)
General and administrative expenses	87.0	77.7	(9.3)	(10.7)
Depreciation and amortisation	24.8	25.9	1.1	4.4
Operating costs	**268.0**	**259.6**	**(8.4)**	**(3.1)**
Efficiency ratios				
Cost-to-income (Operating costs / Total operating income) [(a)]	53.0%	68.8%	15.8 p.p.	
Cost-to-income. excluding specific impacts [(b)]	67.2%	69.3%	2.1 p.p.	

(a) Pursuant to Banco de Portugal Instruction No. 16/2004. in its current version.

(b) Excludes results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

The allocations for impairments and provisions in 2018, calculated in accordance with IFRS 9, reached €93.5 million, compared to €191.4 million recorded in 2017, while loan portfolio (gross) amounted to €13,068 million in 2018, compared to €14,063 million in 2017, leading to a decrease in the cost of credit risk. It should also be noted that under IFRS 9 transition adjustments, €157.1 million was recorded in equity, before the tax effect, relating to impairments and provisions for loans, securities, other loans and advances to credit institutions and other assets.

The allocations for loan impairments incorporate the result of the individual analysis made to significant exposures, which showed signs of impairment, and the value derived from the impairment model used to calculate the impairment associated to homogeneous populations, pursuant to accounting policy 1. c) described in the notes to the financial statements annexed to the Annual Report 2018. Loan impairment stood at €73.2 million in 2018, having evolved favourably in relation to the value of €160.7 million recorded in 2017, resulting in a cost of credit risk of 0.5 per cent. in 2018, compared to 1.1 per cent. in 2017.

The impairment of other financial assets stood at €2.9 million, having fallen by €4.9 million in relation to the value recorded in 2017. In 2017, the impairment for financial assets at fair value through other comprehensive income includes the allocation of €8.6 million relative to impairment losses recognised for investment units in specialised credit funds that were acquired in the context of the assignment of loan portfolio. Pursuant to the classification criterion stipulated by IFRS 9, the investment units in these funds were classified, as at 1 January 2018, under the heading of financial assets not held for trading mandatorily at fair value through profit or loss. Fore more information, see note 15 (Other financial assets impairment) in the Annual Report 2018.

Impairment of other assets amounted to €13.2 million for 2018, representing an increase of 4.8 per cent. compared to 2017, while other provisions amounted to €4.2 million, compared to €10.3 million recorded in 2017.

IMPAIRMENT AND PROVISIONS

(€ million)

	2017	**2018**	Change 18/17	
			Amount	%
Loan impairment	160.7	73.2	(87.5)	(54.4)
Other financial assets impairment	7.8	2.9	(4.9)	(62.8)
Other assets impairment	12.6	13.2	0.6	4.8
Other provisions	10.3	4.2	(6.1)	(59.2)
Total net provisions and impairment	**191.4**	**93.5**	**(97.9)**	**(51.1)**

International activity

Banco Montepio Group's international operations are carried out through the Issuer's subsidiaries, Finibanco Angola, S.A., Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and BTM. BTM was sold in December 2018, and is no longer part of the Banco Montepio Group as at 31 December 2018.

As part of its strategic review of its international business, Banco Montepio is currently negotiating with potential purchasers of Finibanco Angola in order to diversify its African operations.

Angola is currently implementing a new macroeconomic framework which is being supported by a three-year International Monetary Fund (IMF) Extended Fund Facility (EFF) approved by the Executive Board of the IMF on 7 December 2018 in an amount of SDR (Special Drawing Right) 2.673 billion (about US$3.7 billion or 361 per cent. of Angola’s quota) to support Angola’s economic reform program.

The Executive Board’s Decision allowed for an amount of SDR 715 million (about US$990.7 million) to be immediately made available to Angola. The remaining amount will be phased in over the duration of the program, subject to semi-annual reviews.

On 12 June 2019, the Executive Board of the IMF completed the first review of Angola’s economic program supported by the extended arrangement under the EFF. Completion of this review makes available SDR 179 million (about US$248.15 million), bringing total disbursements under the extended arrangement to SDR 894 million (about US$1.24 billion).

The EFF supported program will help Angola restore external and fiscal sustainability and lay the foundations for sustainable, private-sector-led economic diversification. Critical pillars of the program include fiscal consolidation to bring debt to safer levels; increased exchange rate flexibility to regain competitiveness; and supportive monetary policy to reduce inflation. Other pillars of the program include strengthening the banking system; enabling a better business environment; updating the AML/CFT legal framework; and improving governance.

Despite significant progress on macroeconomic stability and structural reforms, Angola is still suffering the effects of lower oil prices and production levels, with a GDP contraction around 1.2 per cent. in 2018 (-0.1 per cent. in 2017). Angola’s GDP and exports depend greatly on the oil market, and the sharp decline in oil prices since mid-2014 has had a significant impact on its economy. Reduced revenues made the government react by cutting expenditure and increasing non-oil revenue, as well as by devaluing the Kwanza. Economic growth is expected to remain subdued in 2019 because of a lower oil price forecast and the oil production cap set by the OPEC agreement.

Angola struggles with high inflation (20.2 per cent. in 2018 and 31.7 per cent. in 2017), current account and fiscal deficits, high public debt, and real negative interest rates. Angola has external imbalances, including forex shortages. Private investments other than in the oil sector are constrained by infrastructure, skills weaknesses, and a challenging business climate.

In the most recent years, the Angolan central bank has adopted a foreign exchange regime that resulted in a sharp devaluation of the Kwanza. In 2016, the Kwanza intensified its depreciation trend, recording an average annual depreciation of 38.1 per cent. against the US dollar (-22.1 per cent. in 2015), to an average value of 165.82 USD / AOA, having depreciated again in 2017 to an average value of 165.96 USD / AOA (-0.1 per cent. on average), as well as in 2018 and much more sharply, to an average value of 252.73 USD / AOA (-52.3 per cent. on average).

The Kwanza devaluation might adversely affect the value of the shareholding 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. As a result, means that cross-border payments and transfers must be settled in foreign currency, which may result in an additional risk to the Issuer.

On 31 August 2018, Banco Montepio informed the market that its subsidiary Montepio Holding, SGPS, S.A. had agreed to sell its 45.8 per cent. stake in BTM to Arise, a holding company established by Norfund, Dutch development bank FMO and Rabobank. Following this sale, Banco Montepio Group has ceased to hold any participation in BTM, consistent with the Issuer's strategic reassessment of its international operations. In December 2018, the Banco Montepio Group completed the sale of its 45.8 per cent. holding in BTM, reducing its international branches by 10.

As at the date of this Base Prospectus, Banco Montepio has a 80.2 per cent. shareholding in Finibanco Angola, a universal bank supporting SMEs, individuals and Angolan foreign trade. Finibanco Angola advises and finances individual customers and micro-enterprises to promote business initiatives that would otherwise not have access to credit. As at 31 December 2018, Finibanco Angola had a total of 24 branches and business centres.

Banco MG Cabo Verde, S.A., 100 per cent. held by Banco Montepio, provides a broad offer of specialised financial products and services, diversified investment and saving solutions, as well as capital and liquidity management solutions.

For further information, please refer to section "*Outline of the performance of the Banco Montepio Group's companies*".

The table below presents key indicators on the activity and results of the Banco Montepio Group’s international business.

Activity and Results (€ million)

	2017 (1)	**2018 (1)**	**2017 (2)**	**2018 (2)**	Change 18/17	
					Amount	%
Total assets	489.1	477.1	435.2	477.1	41.9	9.6
Loans to customers (net)	98.6	62.8	64.4	62.8	(1.6)	(2.5)
Customers' deposits	370.0	351.3	343.8	351.3	7.5	2.2
Total operating income	26.3	46.0	19.6	40.9	21.3	108.5
Operating costs	18.2	19.8	11.8	13.9	2.1	18.2
Cost-to-Income	69.3%	43.0%	60.0%	34.0%	(0.3)	(26.0 p.p.)
Net income	3.7	12.4	3.7	12.9	9.2	244.9

Note: For comparative purposes, the 2017 and 2018 financial statements of Finibanco Angola and of Banco Terra were restated using the same exchange rate: AOA/EUR 353.015; MZN/EUR 70.278. (1) Includes Finibanco Angola. Banco MG Cabo Verde and Banco Terra. (2) Information on a comparable basis: Includes Finibanco Angola and Banco MG Cabo Verde.

The performance of Banco Montepio Group's international operations in 2018 was consistent with the macroeconomic environment in the jurisdictions in which it operates. In Angola, GDP recorded an annual average contraction of 1.7 per cent. in 2018 (a decrease of 0.1 per cent. in 2017) and Cape Verde showed growth of 5.5 per cent. in 2018, compared to 4.0 per cent. in 2017.

Total assets of Banco Montepio Group's international operations amounted to €477.1 million as at 31 December 2018, compared to €435.2 million as at 31 December 2017, an increase of 9.6 per cent. This increase was largely driven by the 27.9 per cent. increase in loan portfolio by Finibanco Angola as at 31 December 2018 compared to the prior year, partially set off by the 13.2 per cent. reduction recorded in the total assets of Banco MG Cabo Verde in this period.

The loan portfolio of Banco Montepio Group's international operations decreased by 2.5 per cent. as at 31 December 2018 compared to 31 December 2017, having decreased from €64.4 million as at 31 December 2017 to €62.8 million as at 31 December 2018. This decrease was exclusively caused by the decrease in loan portfolio granted by Finibanco Angola.

Customer deposits for Banco Montepio Group's international operations amounted to €351.3 million as at 31 December 2018, an increase of 2.2 per cent. compared to 31 December 2017. This was underpinned by the increase of customer deposits of Finibanco Angola, which reached €192.9 million as at 31 December 2018, representing an increase of 18.7 per cent. compared to 31 December 2017, and accounting for 54.9 per cent. of the total deposits of Banco Montepio Group's international operations. Customer deposits at Banco MG Cabo Verde stood at €158.5 million as at 31 December 2018, reflecting a reduction of 12.6 per cent. in relation to the value recorded as at 31 December 2017.

Total operating income of Banco Montepio Group's international operations reached €40.9 million for 2018, compared to €19.6 million recorded in 2017, showing an increase of 108.5 per cent. The increase in total operating income was underpinned by the growth of net interest income, which reached €20.8 million (an increase of 22.2 per cent.), net fees and commissions, which amounted to €9.1 million (an increase of 110.4 per cent.) and the results from foreign exchange revaluation, which reached €12.5 million (an increase of 400.7 per cent.).

At Finibanco Angola, total operating income for 2018 increased by 113.2 per cent. in relation to 2017, standing at €40.7 million. This outcome reflects the increase of net interest income which increased by €4.0 million, net fees and commissions which grew by €4.8 million, and the results from foreign exchange revaluation which increased by €10.1 million.

At Banco MG Cabo Verde, total operating income for 2018 stood at €0.2 million, representing a reduction of €0.3 million (a decrease of 56.4 per cent.) compared to the value recorded in 2017. The amount of total operating income at Banco MG Cabo Verde was influenced by the decrease of net interest income by €0.2 million, and the results from foreign exchange revaluation decreasing by €0.1 million in relation to 2017.

Operating costs of Banco Montepio Group's international operations amounted to €13.9 million, an increase of 18.2 per cent. as compared to €11.8 million in 2017. This increase was primarily caused by the 37.5 per cent. increase in staff costs and 3.4 per cent. increase in general administrative expenses, despite the decrease in depreciation and amortisation (a decrease of 1.3 per cent.).

At Finibanco Angola and Banco MG Cabo Verde, operating costs increased in 2018 by 18.1 per cent. and 20.1 per cent. respectively as compared to 2017, reflecting the new business activity and market changes. At Finibanco Angola, the increase in operating costs was primarily due to the increase in staff costs and general administrative expenses of 36.5 per cent. and 2.8 per cent., respectively, which was partially offset by depreciation and amortisation which decreased by 1.1 per cent. At Banco MG Cabo Verde, the increase in operating costs was also due to increases in staff costs and general administrative expenses of 92.5 per cent. and 8.2 per cent., respectively, which was partially offset by depreciation and amortisation which decreased by 24.0 per cent.

As a result of the above, the cost-to-income ratio of Banco Montepio Group's international operations amounted to 34.0 per cent. in 2018, a decrease by 26.0 percentage point compared to 2017.

In 2018, the contribution of Banco Montepio Group's international operations to the consolidated net income of the Banco Montepio Group was €12.9 million (€3.7 million in 2017), with positive net income in Angola (of €13.3 million) and negative net income in Cape Verde (of €0.4 million).

Key indicators

The table below sets out the Issuer's key indicators for 2017 and 2018.

	2017	2018	change 18/17
ACTIVITY AND RESULTS (€ million)			
Total assets	20 200	18 351	(9.2%)
Loans to customers (gross)	14 063	13 068	(7.1%)
Customers' deposits	12 561	12 575	0.1%
Net income	6	13	94.4%
SOLVENCY (a)			
Common Equity Tier 1 ratio	13.2%	13.5%	0.3 p.p.
Tier 1 ratio	13.2%	13.5%	0.3 p.p.
Total Capital ratio	13.3%	14.1%	0.8 p.p.
Leverage ratio	7.6%	7.8%	0.2 p.p.
Risk weighted assets (EUR million)	11 875	10 759	(9.4%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	107.3%	96.6%	(10.7 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	92.4%	88.7%	(3.7 p.p.)
CREDIT QUALITY			
Cost of credit risk	1.1%	0.5%	(0.6 p.p.)
Ratio of loans and interest overdue by more than 90 days	8.2%	7.0%	(1.2 p.p.)
Coverage of loans and interest overdue by more than 90 days	90.2%	103.4%	13.2 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	16.4%	14.4%	(2.0 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	44.9%	50.3%	5.4 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	87.0%	86.2%	(0.8 p.p.)
Forborne exposures (d) / Gross customer loans	8.2%	7.2%	(1.0 p.p.)
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	2.5%	2.0%	(0.5 p.p.)
Net income before income tax / Average total assets (b)	0.2%	0.3%	0.1 p.p.
Net income before income tax / Average total equity (b)	3.0%	3.5%	0.5 p.p.
Cost-to-income (Operating costs / Total operating income) (b)	53.0%	68.8%	15.8 p.p.
Cost-to-Income. excluding specific impacts (e)	67.2%	69.3%	2.1 p.p.
Staff costs / Total operating income (b)	30.9%	41.3%	10.4 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Group Banco Montepio total	4 189	3 944	(245)
Banco Montepio	3 630	3 566	(64)
Branches			
Domestic network - Banco Montepio	324	324	0
International Network	34	24	(10)
Finibanco Angola (f)	24	24	0
Banco Terra (g)	10	0	(10)
Representation Offices - Banco Montepio	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios reflect adhesion to the special regime of deferred tax assets.
(b) Pursuant to Banco de Portugal Instruction No. 16/2004. in its current version.
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.
(d) EBA definition.
(e) Excludes results from financial operations and other operating results. (net gains arising from the sale of other financial assets and other operating income).
(f) Includes corporate centres.
(g) As at 31 December 2018 Banco Terra is not part of the Banco Montepio Group.

Employees

As at 31 December 2018, the Banco Montepio Group had a total of 3,944 employees, 90.4 per cent. of whom were employees of Banco Montepio. Banco Montepio's staff decreased by 1.8 per cent. between December 2017 and December 2018, a reduction of 64 employees. At the end of 2018, the Banco Montepio Group had a total of 3,944 employees, a reduction of 5.8 per cent. in relation to the same period of the previous year, due to the reduction referred to above and the deconsolidation of BTM as at 31 December 2018.

Lending Policies and Procedures

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a robust process of credit analysis and decision-making, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. The credit decision process depends on a group of policies based on scoring models developed for individual and business customers and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior.

There are scoring models for credit to individual credit portfolios, namely to mortgage loans, individual loans and credit cards.

Individual Entrepreneurs (Empresários em nome individual - ENI) and Micro businesses are considered part of the retail segment, and therefore scoring models specific to the retail segment are applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with application scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by business sectors, such as the third sector, or by seniority of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of probability of default, and this scale composed of 19 classes, of which the first 15 classes correspond to performing risk classes, classes 16 to 18 to credit incidents and class 19 to non-compliance, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Risk analysis involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system for early warning signs is in place for the main indicators of credit risk tightening.

In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018. IFRS 9 is based on three pillars:

- Classification and Measurement;

- Impairment; and
- Hedge accounting.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39).

According to this amendment, financial assets are classified into segments, based on the evolution of their credit risk:

- Stage 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- Stage 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, Amounts receivable, Other debtors, Other receivables or Sundry debtors). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;
- Stage 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

- 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);
- Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered;
- PD=100 per cent. to all stage 3 contracts.

In the group of individually significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Customers is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the customer's various operations, updated according to the interest rates of each operation.

Credit Recovery Policy

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of €951,835 thousand (31 December 2017: €1,148,027 thousand) which have an impairment of €398,744 thousand (31 December 2017: €399,831 thousand).

Banco Montepio has adopted forbearance measures and practices, according to its credit risk, in order to adjust the disposable income or the financial capacity of its customers to its debt service. On this basis, the recommendations contained within Decree-Law no. 227/2012 (that establishes the rules that banks and other financial institutions must comply with in order to manage and prevent cases of credit default, as well as to negotiate new settlements plans with the defaulted clients) and in the ancillary legislations such as, SIREVE – System for the recovery of companies by extrajudicial way (Decree-Law no. 178/2012), RERE – the extrajudicial business recovery scheme (Law no. 8/2018) and PER – the special revitalization process (Law no. 16/2012), which were adopted and widely disclosed on the

Issuer’s website, in internal rules and communications disclosed to and implemented when customers show evidence of financial difficulties.

Regarding the forbearance measures and in accordance with the Implementing Regulation (EU) 2015/227 of 9 January 2015, contractual changes were considered (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed during 2018 and 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate.

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to €24,571 thousand (31 December 2017: €28,207 thousand).

Banco Montepio uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect their market value, these effects are reviewed regularly based on evaluations conducted by certified independent testing organisations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of the relevant assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

The following table shows total NPEs (as per EBA definition) and total impairment charges for the year 31 December 2018 and 31 December 2017:

	For the year ended 31 December	
	2017	**2018**
Total NPEs (€Mn)	2 305	1 879
(as percentage of total credit to customers)	16.4%	14.4%
Impairment for credit risk (€Mn)	1 034	945
(as percentage of total NPEs)	44.9%	50.3%

Financial Risk Management

The most important financial risks to which the Issuer is potentially exposed are liquidity risk, foreign exchange risk and interest rate risk.

In common with many similar credit institutions which finance housing loans, the Issuer’s loan assets are relatively illiquid whilst its funding is based on retail deposits, most of which are either legally available on demand or are of a short term nature (although in practice such deposits usually remain with the Issuer for extended periods).

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests, aimed at characterising Banco Montepio's risk profile and assure that the Banco Montepio Group meets its obligations in the event of a liquidity crisis.

The objective of controlling the liquidity levels is to maintain a satisfactory level of liquid assets so as to meet financial needs in the short, medium and long term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-taking within the Capital, Asset and Liability

Committee (CCAP). Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through weekly and monthly reports.

The evolution of the liquidity situation is monitored, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections so as to determine the accumulated liquidity gap for various time horizons. Moreover, the liquidity positions are also monitored from a prudential perspective, calculated according to the rules required by Banco de Portugal (Instruction number 13/2009 of 15 September), as well as the level of compliance of the liquidity prudential indicators, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and internal ratios such as, for example, loan-to-deposits ratios, concentration of funding sources, short term funding and eligible assets.

The table below sets out the liquidity gaps in December 2018:

LIQUIDITY POSITION GAPS IN DECEMBER 2018

(€ million)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	**Above 1 week and up to 1 month**	**Above 1 month and up to 3 months**	**Above 3 months and up to 6 months**	**Above 6 months and up to 12 months**
Accumulated mismatches	2 936	2 905	2 773	2 687	2 568

The LCR ratio reached 160.5 per cent. at the end of December 2018, above the minimum requirement of 100 per cent.

Concerning the exchange rate risk of the banking book, in general, the funds raised in various currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the assets and liabilities. The current foreign exchange exposure of the Banco Montepio Group in consolidated terms is essentially the result of structural positions derived from the conversion of the balances of the subsidiaries (such as Finibanco Angola) in their main currencies, namely the Kwanza, Brazilian Real and American Dollar. Banco Montepio's stake in BTM was sold at the end of December 2018, leading to deconsolidation.

Limits of exposure have been defined for the exchange rate risk of the banking book, which are monitored by the management bodies and CCAP, where any overrunning of the established limits follows an established circuit, including approval by the management body or the implementation of measures to cover this risk.

The limits defined for exchange rate risk include limits of position by currency, in consolidated and individual terms, as well as in terms of VaR, and are also disaggregated in terms of the trading book and banking book.

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 subsidiaries included in the Banco Montepio Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, net worth and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Following the recommendations of Basel and Banco de Portugal Instruction number 34/2018 of 15 June, the Banco Montepio Group calculates its exposure to balance sheet interest rate risk, at least quarterly, based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items which do not belong to the trading book, by repricing brackets.

In this context, limits are defined for exposure to interest rate risk factors which are monitored by CCAP, where any overrunning of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover the exposure.

At the same time, a stress test is conducted with six shock scenarios in the interest rate curve. This test measures impacts on net interest income at one year and on net worth of the shocks in the interest rate curve prescribed in the BIS document of April 2016, Standards – Interest rate risk in the banking book.

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent performance assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing brackets:

INTEREST RATE REPRICING GAPS IN DECEMBER 2018

(€ million)

	Residual maturities of repricing				
	Up to three months	**Three to six months**	**Six months to one year**	**One to five years**	**Over five years**
Assets	8 918	3 023	753	1 392	959
Off balance sheet	6	10	14	753	0
Total assets	**8 924**	**3 032**	**767**	**2 145**	**959**
Liabilities	2 956	1 717	1 964	5 324	51
Off balance sheet	758	10	14	0	1
Total liabilities	**3 714**	**1 727**	**1 978**	**5 324**	**52**
GAP (Assets - Liabilities) in Dec 2018	**5 210**	**1 306**	**(1 211)**	**(3 179)**	**907**
GAP (Assets - Liabilities) in Dec 2017	**2 610**	**1 409**	**(1 881)**	**(5 485)**	**748**

The following tables present the interest rates gaps, from a consolidated perspective, for 2018 and 2017:

(€ Thousands)

	Below 3 months	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Above 5 years**
31 December 2018					
Assets	8 917 958	3 022 618	752 899	1 391 625	959 267
Off-balance sheet	6 200	9 850	13 920	753 300	-
Total	8 924 158	3 032 468	766 819	2 144 925	959 267
Liabilities	2 955 967	1 717 108	1 963 660	5 323 769	51 245
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 714 267	1 726 958	1 977 580	5 323 769	52 445
GAP (Assets - Liabilities)	5 209 891	1 305 510	(1 210 761)	(3 178 844)	906 822
31 December 2017					
Assets	8 090 272	3 323 150	638 092	1 796 706	1 022 751
Off-balance sheet	9 990	-	-	782 972	-
Total	8 100 262	3 323 150	638 092	2 579 678	1 022 751
Liabilities	4 732 106	1 903 838	2 509 450	8 049 434	274 933

Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 490 656	1 913 688	2 519 190	8 064 256	274 933
GAP (Assets - Liabilities)	2 609 606	1 409 462	(1 881 098)	(5 484 578)	747 818

(€ Thousands)

	2018				2017			
	December	**Annual average**	**Maximum**	**Minimum**	**December**	**Annual average**	**Maximum**	**Minimum**
Interest rate gap	3 032 618	1 657 634	3 032 618	(1 033 527)	(2 598 790)	(2 071 755)	(1 544 721)	(2 598 790)

In view of the interest rate gaps observed as at 31 December 2018, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a variation of net gains in the expected economic value of the banking portfolio of a decrease of approximately €19.0 million.

The concept of market risk reflects the potential loss that could be recorded by a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments comprising the portfolio, considering both the correlations that exist between them and their volatility.

Value-at-Risk (VaR) is one of the key metrics used to measure and monitor market risk. The Banco Montepio Group calculates the VaR on a daily basis, both for its trading book and for the portfolio of financial assets at fair value through other comprehensive income. VaR is also calculated on a time horizon of 10 business days and at a 99 per cent. significance level, by the historical simulation method. The types of risk considered in this methodology are interest rate risk, exchange rate risk, price risk, spread risk and commodities risk.

With respect to market risk information and analysis, there is regular reporting on Banco Montepio's own portfolios and those of other entities of the Banco Montepio Group, with various risk limits being defined, including overall limits of VaR, by Issuer, by type/class of asset and stop loss and loss trigger limits for positions held for trading and in other comprehensive income.

In the reports produced, the various exposure limits are controlled, analysed the risks of concentration, credit, interest rate and asset price variation, among others. These analyses consider the analysis of scenarios, namely the sensitivities of the securities portfolio to variations of interest rates, spreads, adverse exchange rate evolution and variation of the market prices of shares and real estate properties.

In the field of market risk, in addition to the risk report of Banco Montepio’s overall portfolio, specific risk reports are also produced for the trading book and the proprietary portfolios of financial assets at fair value through other comprehensive income.

In order to ensure more effective risk management, the positions in portfolio are disaggregated into a portfolio of financial assets at fair value through other comprehensive income, portfolio of other financial assets at amortised cost, portfolio of financial assets not necessarily held for trading at fair value through profit or loss, and portfolios of assets held for trading (which exclude hedge coverages and fair value option), with risk limits being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or other, whenever justified by alterations to market risk levels. Stop loss and loss trigger thresholds are also defined, applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is compulsory.

Concerning investment policy in the banking book, there was a reduction up to December 2018 of exposure to Italian and Spanish public debt securities, and higher exposure to Portuguese sovereign debt was recorded. Note should also be made of the downgrading of Italian public debt from BBB to BBB-. Reference is also made to the downgrade of Greek public debt bonds (with B- rating), and to the fact that the changes referred to above led to variations in terms of the rating structure, namely in the BBB-, BBB and BBB+ buckets. The weight of bonds classified as investment grade in the total bond portfolio as at 31 December 2018 reached 90.2 per cent. It should also be stressed that, at the end of December 2018, Banco Montepio only held positions in derivatives in the trading book.

A summary of the VaR indicators in December 2017 and 2018 is presented below:

VaR INDICATORS (1)

	Dec-18		Dec-17	
	Banking Book	**Trading Portfolio**	**Banking Book**	**Trading Portfolio**
Market VaR (1) (2) (3)	**0.90%**	**0.17%**	**1.26%**	**5.83%**
Interest Rate Risk	0.41%	0.17%	0.37%	0.24%
Exchange Rate Risk	0.15%	0.00%	0.09%	0.19%
Price Risk	0.29%	0.00%	0.24%	0.59%
Credit risk (spread)	1.74%	0.00%	0.56%	4.81%
Commodity Risk	0.00%	0.00%	0.00%	0.00%

(1) 10-day time horizon and significance level of 99 per cent.; As a percentage of total portfolio assets; Includes the portfolios of Banco Montepio Group and Montepio Investimento.

(2) Includes diversification effect.

(3) Excludes positions of Banco Terra and Finibanco Angola.

Moreover, analyses are conducted of scenarios for the trading book to supplement the analysis of the other risk indicators. However, in December 2018 the trading book did not have any open positions in equity securities and bonds.

Competition

The Issuer was the sixth largest bank in Portugal in terms of net assets as at 31 December 2018 (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Despite competition in the market, Banco Montepio has been able to sustain its position in the market and to preserve its market share in banking activity. Banco Montepio's overall market share (deposits and loans) was 6.1 per cent. as at 31 December 2018 (source: *Banco de Portugal Financial and Monetary Statistics (Resident Activity)*).

Furthermore, as at 31 December 2018, the Issuer had a market share of 6.7 per cent. in housing credit and 6.6 per cent. in loans to SMEs and corporations (source: *Banco de Portugal, Financial and Monetary Statistics (Resident Activity)*). As at 31 December 2018, Banco Montepio's market share in total deposits stood at 6.0 per cent., reaching 6.2 per cent. in the household deposits segment, including emigrants (source: *Banco de Portugal, Financial and Monetary Statistics (Resident Activity)*).

The Issuer considers that its primary competitive advantage is its superior customer service, as a result of being majority owned by a mutual beneficial association, its product offering including private pension schemes provided by MGAM and its reputation as a stable financial institution.

Technology

Banco Montepio believes that technology has strategic importance in providing good quality and innovative services to its customers, which is essential to maintain its competitiveness in the Portuguese market.

The latest developments in the Issuer's Legacy System include a 24x7 Project. With this implementation, current accounts processing, domestic transfers and payments, internal ATM cash transactions, debit and credit cards, saving accounts and inter-bank transfers become available in real-time, 24 hours every day of the week, without unavailability related to Batch Processing.

Banco Montepio classifies its systems into two categories: "Core System" and "Distributed Systems". The Core System corresponds to the mainframe while Distributed Systems represent the Windows and Linux platforms where most departmental applications are hosted. Banco Montepio deployed a private cloud solution based in VMWARE and HYPER-V, following the IaaS model, allowing powerful consolidation and virtualisation of the Distributed

Systems, which in turn increased operational efficiency, reduced production time and infrastructure-related efforts and costs.

Banco Montepio also implemented a CITRIX virtualisation farm to provide more flexible and agile access to new applications to branch users. The implemented solution takes advantage of “Load Balancers NetScalar” and application virtualisation using XENAPP. The use of Load Balancers improves the delivery speed and quality of applications for an end user. The product helps business customers perform tasks such as traffic optimisation, load balancing, and web application acceleration while maintaining data security. It also performs several kinds of caching and compression. The benefits of application virtualisation include ease of maintenance and greater portability, making programs easier to deploy across several versions of Windows. Another one of the benefits of application virtualisation is that applications that depend on custom drivers or libraries can be easily installed, which makes deploying upgrades and patches easier.

On a growing cloud integration strategy, new services were adopted on the Office 365 platform, such as, Skype for Business, Yammer, One Drive, Exchange Online, Sharepoint Online and Intune.

Following a digital transformation vision, a new business platform, CRM Online, was adopted. This SaaS solution empowers the digital marketing strategy, bringing new capabilities to the organisation, aligning marketing and sales activities for its customers.

These services integrations were achieved through the implementation of ADFS creating a common layer in what regards to user and application accessibility management.

A sophisticated information network has been implemented, integrating voice and data, and is updated on a continuous basis. It provides high bandwidth connections up to 10 GB, incorporating 4G technology.

The security infrastructure ensures, in a high availability system, the protection of all systems through Geo-cluster Checkpoint firewalls integrating the protection of threats with Radware intrusion detection mechanisms, geographic balancing and Radware local balancing. All components of the solution are present in its’ own infrastructure with multi-user interconnections to assure that all national and international communications and their contents are served in Lisbon or Porto, providing protection against failures in the event of interruptions in local or regional networks, power outages or natural disasters.

Recently Banco Montepio has launched the Security Operations Center (“**SOC**”) service. The SOC is the 24x7 single point of contact for monitoring and responding to security incidents by an organised team with specialised skills (“**CERT**”). Its mission is to ensure continuous monitoring and improve the security level of the organisation while preventing, detecting, analysing and responding to cyber security incidents, backed by processes and technologies.

In addition, innovative projects have been and are being implemented, with a large impact on the local market, such as:

- Internet Banking (Net24) and Mobile Banking (Netmóvel24) integrated with a new CX Omnichannel platform, including several native Apps for iOS, Android and Windows 8 (Surface and PC), providing customers with a wide range of transactions, including enquiries, deposits, transfer orders and bill payments and on-line brokerage services. To increase security, new features were added to the omnichannel platform, implementing Strong Customer Authentication.

- A contact centre (Phone24) has been established, which provides phone, fax, e-mail and chat capabilities for its customers.

- An internal Self-Service ATM network (Chave24). Banco Montepio was the first bank to provide ATM services in Portugal in 1984. At present their last generation ATM with a Web based Application and cash-Recycling technology, provides a broad range of products and services which are all touch screen only and voice enabled, such as: bill payment, cash and check deposits and passbook automatic page turn.

- A new Branch Automation Solution is in place using Accenture Multichannel Platform, providing the migration from a Client-Server architecture to a Web Based Application running in Virtual machines. The new solution allows the integration of information from a diversity of sources like: CRM, Enterprise Analytics, Workflows, Intranet and others.

- Integrated with the new Branch Automation Solution, a new IT architecture for supporting financial processes dematerialisation was implemented, replacing traditional processes based and supported in paper, in line with best technical and security standards, with the objective of enhancing Banco Montepio’s image of innovation and digital transformation, improve customer experience and reduce operating costs and operational risk. This new solution started to be adopted for supporting processes originated in branch networks and will be gradually spread to other areas / processes.

- An Enterprise Data Warehouse ("**EDW**") which supports all needs related with Business Intelligence trends considering financial services. This infrastructure keeps increasing, on a regular basis, in order to cater for the needs arising from the development of new business lines and to meet business subjects areas like risk, profitability, pricing, Regulatory Reporting, Auditing, Marketing.

- The former "CRM" is, currently, being developed to a Marketing Automation level comprising a new Analytic CRM platform interacting with an upgraded Operational CRM application among full integration with a revised 360º Customer Vision (value added with new commercial relevant information) and integration with Product 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.

- Finastra Kondor+ has been implemented in order to improve trade management, support of complex derivatives, options and structured trades support, improve straight through processing. With Finastra Kondor+ Banco Montepio was able to implement a complete front-to-back solution with strong support for risk management and centralised administration and control. Recent developments are improving the global front-to-back solution with the integration of two new tools provided by Bloomberg: TOMS (Trade Order Management Solutions) and MARS (Multi-Asset Risk System).

- A "Time Deposit Workflow" is in operation allowing the integrated management of spread authorisation in time deposits.

- A "Workflow" system allowing for the integrated management of credit process has been implemented.

- An "Enterprise Document Management System" has been implemented supporting different business process such as: inter-bank circulation of cheque images, members' and costumers' signatures and daily branch movement.

- In terms of AML compliance, an Operational Monitoring System ("**Northland**") has been implemented as well as a Filtering System ("**Fircosoft**") for "funds transfer" operations and for clients.

- A New Credit Risk Reporting Platform

  This project aimed to respond to new Banco de Portugal credit risk reporting requirements ("**CRC 5 G**"), aligned with new EU Central Bank reporting legislation ("**AnaCredit**"). The solution implemented in the development of the project included the construction of a new centralised credit risk information database in the business intelligence architecture, which can be used later on to answer to different information requirements in this domain. The project also included the development of a new Portal to support the exchange of information with Banco de Portugal, which included the implementation of the appropriated functionalities and controls to support the management of the cases/hits that may require manual intervention.

- Credit Recovery IT Architecture Review and Optimisation

  This project included an extended review of the IT applications and tools that support credit recovery, addressing the following key-objectives and enhancements: To adjust credit IT applications and tools to the new organisational and operational credit recovery model in place; To improve credit IT applications and tools suitability to the requirements of the credit recovery department; To develop a new credit recovery Portal to support credit recovery department relationship with external law offices that provide services, which provides a broad range of functionalities to enable a proper management and control of the processes.

The following are the Issuer's projects concluded in 2019 or in an advance stage of development:

- A Digital Onboarding solution, integrated in the bank's APP M24, which incorporates videoconferencing and digital signatures;

- A new Credit online platform, supported in an automated integrated workflow;

- A Fraud Detection solution for online digital channels;
- The integration of payment transactions and services with SIBS Open APIs platform, that ensures compliance with the Payment Services Directive 2 (PSD2);
- Opening of account and credit online for individuals;
- New app updates to appeal to younger customers offering ways to interact with the bank;
- System of continuous assessment of customer relations, through the implementation of the Net Promoter Score (NPS) system in every customer interaction with the bank.

Legal and arbitration proceedings

In November 2016, Banco Montepio was notified by Banco de Portugal of administrative proceedings relating to alleged violations of certain AML procedures (administrative proceeding (processo de contraordenação) no. 84/14/CO). These proceedings relate to events that occurred prior to 12 August 2016 and concern alleged non-compliance by Banco Montepio with certain duties pertaining to the implementation of required mechanisms allowing for: (a) the identification and the knowledge of the ownership and control of corporate entities; (b) information on the origin of funds; (c) information updates relating to banking entities; (d) extension to affiliates of measures equivalent to those foreseen in Law no. 25/2008; (e) system parameters for high risk operations; and (f) the provision of information reports to the Procuradoria Geral da República of operations potentially related to AML. Banco Montepio presented its defence in January 2017. The potential penalty applicable to Banco Montepio ranges from €10,000 to €5,000,000. As at the date of this Base Prospectus, Banco Montepio cannot predict the outcome of these proceedings.

On 21 February 2019, Banco Montepio was notified of an unfavourable ruling under an administrative proceeding whereby Banco de Portugal imposed on Banco Montepio an administrative fine (*coima*) of €2.5 million and an ancillary sanction consisting of the publication of the final ruling. No further sanctions have been imposed upon Banco Montepio. This administrative proceeding relates to events that occurred between 1 January 2009 and 2 September 2014 and concerns alleged non-compliance by Banco Montepio with certain duties regarding, in general terms: (a) its internal control system procedures, (b) the assessment and approval of intragroup credit operations, (c) the calculation of specific credit provisions, and (d) the implementation at Banco Montepio's subsidiaries of suitable procedures to assess the origin of funds of the subscribers of the participation units representative of the Participation Fund of Banco Montepio. The origin of these non-compliant events has been addressed and Banco Montepio is now compliant with these duties. Banco Montepio judicially challenged this ruling on 22 April 2019. On 9 September 2019, Banco Montepio was notified of a favourable ruling whereby the Competition, Regulation and Supervision Court (*Tribunal da Concorrência, Regulação e Supervisão*) of Santarém held that the first notice of indictment issued by Banco de Portugal on 7 March 2017, is null and void, and annulled the unfavourable ruling whereby Banco de Portugal imposed an administrative fine (*coima*) of € 2.5 million and the ancillary sanction consisting of the publication of the final ruling against Banco Montepio. The Court also ordered the annulment of all notifications issued and referred the case back to Banco de Portugal so that a new valid decision may be issued. Banco de Portugal and the state prosecutor (*Ministério Público*) both challenged this ruling of annulment. As at the date of this Base Prospectus, Banco Montepio cannot predict the outcome of these proceedings.

On 9 September 2019, Banco Montepio was notified of the decision by the Competition Authority on the administrative process PRC-2012/9 ("**Decision**"), in which it was held that Banco Montepio (and other Portuguese banks) were engaged in anti-competitive practices and the exchange of sensitive commercial information, in breach of Article 9 of Law no. 19/2012, of 8 May 2012 and Article 101 of the Treaty on the Functioning of the European Union, and imposed on Banco Montepio a fine of €13 million. The decision is being appealed by Banco Montepio (and the other Portuguese banks) to the Competition, Regulation and Supervision Court. By appealing this Decision, the obligation to pay the fine will be suspended until a final decision is made. Based on all the relevant circumstances, the management considers there is a likelihood that the administrative fine (*coima*) will not become effective following the legal remedies that come to be lodged against the Decision. As at the date of this Base Prospectus, Banco Montepio is not aware of any claim for damages related to the Decision or to the related facts.

Save as disclosed above, there have been no new governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which Banco Montepio is aware) during the period covering at least the 12 months preceding the date of this Base Prospectus which may have or have had a significant effect on Banco Montepio's financial position or profitability.

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

Following the implementation of the 2013 Articles of Association, Banco Montepio's governance structure comprises management and supervisory bodies separate from those of MGAM. Nonetheless, as Banco Montepio is an entity majority owned by MGAM, there exists a core of shared strategic principles.

In the General Meeting held on 30 April 2015 and continued on 27 May 2015, a partial amendment of Banco Montepio's by-laws was approved. The amended by-laws were ratified by the General Meeting of MGAM held on 25 June 2015.

One of the key amendments to Banco Montepio's by-laws was to how members of the different governing bodies were elected. Pursuant to the amended by-laws, as approved in the said General Meeting of MGAM held on 25 June 2015, all governing bodies began to be elected in the General Meeting of Banco Montepio (i.e. members of the Board of Directors of MGAM are no longer statutorily members of the General and Supervisory Board of Banco Montepio).

One other relevant amendment was the inclusion of new governing bodies, as foreseen in the RGICSF: (i) a Remuneration Committee; (ii) an Evaluation Committee; and (iii) a Risk Committee. The members of these new governing bodies were also elected in the General Meeting of Banco Montepio.

On 22 July 2015 an Issuer's Extraordinary General Meeting was convened to elect, *inter alia*, the members of its Executive Board of Directors and General and Supervisory Board for the term 2015/2018. This Extraordinary General Meeting took place on 5 August 2015.

Following the approval of the Savings Banks Act, which entered into force on 10 October 2015, and the resolution of Banco de Portugal pursuant to paragraph 2 of the Savings Bank Act, an Extraordinary General Meeting of Banco Montepio was convened on 22 November 2016, to discuss Banco Montepio's conversion to a public limited liability company and consequently amending its Articles of Association.

The conversion to a public limited liability company was further discussed in an Extraordinary General Meeting of Banco Montepio held on 4 April 2017, in accordance with number 2 of article 6 of the Savings Banks Act. This adopted resolutions that needed to be ratified by resolution of the General Meeting of MGAM, which held an extraordinary session on 9 May 2017, in accordance with Article 6 (4.g) of the Decree-Law No. 190/2015, Articles 32 and 33 of Banco Montepio's by-laws and Article 25 (g) of the MGAM's by-laws.

It should also be noted that the effectiveness of the resolutions taken at the Extraordinary General Meeting held on 4 April 2017, regarding Banco Montepio's conversion to a public limited liability company, only occurred after Banco Montepio's commercial registration, which took place on 14 September 2017.

On 14 September 2017, the deed was executed, converting Banco Montepio into a public limited liability company, and changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Banco Montepio's corporate governance, after its conversion into a public limited liability company and as provided in article 6 of the new by-laws, maintained the General Meeting, the General and Supervisory Board, the Executive Board of Directors and the Statutory Auditor as the governing bodies of Banco Montepio, but the Remuneration Committee, the Evaluation Committee and the Risks Committee became Corporate Bodies of Banco Montepio. Two new corporate bodies (the Financial Matters Commission and the Secretary of Banco Montepio) were also added.

Pursuant to the resolutions taken in the General Meeting of Banco Montepio, the members of the Executive Board of Directors and the General and Supervisory Board maintained their terms in the statutory bodies after the conversion of Banco Montepio into a public limited liability company (sociedade anónima).

Banco Montepio's corporate governance was a two-tier model, which included an Executive Board of Directors, a General and Supervisory Board and a Statutory Auditor. Pursuant to Banco Montepio's corporate governance, the

General and Supervisory Board was the body responsible for the supervision, monitoring and counselling of Banco Montepio's activity.

Meanwhile Banco Montepio has implemented an important change in its corporate governance and, since 16 March 2018, it has operated, a one-tier corporate structure with a Board of Directors, including an Audit Committee and an external independent auditor.

Pursuant to the corporate governance model adopted by Banco Montepio – the one-tier Anglo-Saxon model – and following the approval in the General Meeting held on 16 March 2018, the new corporate bodies were elected and the new Articles of Association were approved. The new corporate bodies and the respective members were approved by Banco de Portugal on 4 April 2018.

The Articles of Association were further amended on 30 October 2018 (currently in force), according to which the Board of Directors shall be comprised of a minimum of twelve and maximum of nineteen members, including a non-executive Chair and an executive Vice-Chair, all of whom shall be elected at a General Meeting of Shareholders, and, in addition to its legal duties, shall undertake Banco Montepio’s management pursuant to article 13 of the Articles of Association. The Board of Directors shall delegate the day-to-day management of Banco Montepio to an Executive Committee, defining its membership, operating rules and the limits of its power, and shall appoint a Chief Executive Officer, who shall not be the Chairperson of the Board of Directors.

Some of the non-executive members of the board that also form the audit committee have supervisory powers (i.e. they are prevented from exercising executive tasks) and are responsible for overseeing the management of Banco Montepio.

The auditor is essentially responsible for examining the books, accounts and financial statements of Banco Montepio and verifying the adequacy of the adopted accountancy policies and standards.

In accordance with Article 5 of the new Articles of Association in force, Banco Montepio’s Governing Bodies are:

a) The General Meeting of Shareholders;

b) The Board of Directors, which includes an Audit Committee; and

c) The Statutory Auditor.

The General Meeting Board, the Board of Directors, the Audit Committee and the Statutory Auditor, shall be elected pursuant to the terms of the Articles of Association. The term of office shall be four years and members may be re-elected .

The members of the governing bodies are elected at an Extraordinary General Meeting, in accordance with Article 9 and Article 11 of the new by-laws.

The elected governing bodies took office on 21 March 2018 and Carlos Manuel Tavares da Silva carried out the duties of Chief Executive Officer and, temporarily, Chairperson of the Board of Directors under the terms authorised by Banco de Portugal.

The Corporate and Governing Bodies of Banco Montepio and the relevant members for the mandates 2015-March 2018 and March 2018-2021 are set out below.

Mandate 2015 – March 2018

Executive Board of Directors

Following the approval by Banco de Portugal, the Executive Board of Directors elected in the extraordinary General Meeting held on 5 August 2015, started their functions on 7 August 2015. The following were the members of the Executive Board of Directors of Banco Montepio until and including 20 March 2018:

Name		Other positions
José Manuel Félix Morgado	Chairperson	Chairman of the Board of Directors of Finibanco Angola, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Banco Terra, S.A.
João Carlos Martins da Cunha Neves	Board Member	Member of the Board of Montepio Holding SGPS, S.A. Member of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Banco MG Cabo Verde, S.A., Soc. Unipessoal, S.A
Luís Gabriel Moreira Maia Almeida	Board Member	No other positions
Fernando Ferreira Santo	Board Member	Member of the Board of Montepio Gestão de Activos Imobiliários, ACE
João Belard da Fonseca Lopes Raimundo	Board Member	Chairman of SIBS, SGPS, S.A. and SIBS FPS – Forward Payment Solutions, S.A. Chairman of the Board of Directors of Montepio Investimento, S.A. Member of the Board of Montepio Holding, SGPS, S.A.
Jorge Manuel Viana de Azevedo Pinto Bravo	Board Member	No other positions
Luís Miguel Resende de Jesus	Board Member	Member of the Board of Montepio Holding, SGPS, S.A.

General Meeting Board

The Issuer's General Meeting Board for the period from and including 7 August 2015 to and including 20 March 2018 was made up of one Chairperson and two Secretaries, elected in the General Meeting of Banco Montepio held on 5 August 2015, as follows:

Name		Other positions
Vitor José Melícias Lopes(*)	Chairperson	No other positions
Manuel Duarte Cardoso Martins	First Secretary	No other positions
António Dias Sequeira(**)	Second Secretary	No other positions

(*) resigned on 31 December 2015 and succeeded by the First Secretary, Manuel Duarte Cardoso Martins, who was in turn replaced by Maria Leonor Loureiro Gonçalves de Oliveira Guimarães

(**) resigned on 31 December 2015 and replaced by Cassiano Cunha Galvão

General and Supervisory Board

The following were the members of Banco Montepio's General and Supervisory Board for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of Banco Montepio held on 5 August 2015.

Name		Other positions
Álvaro Duarte Pinto Correia	Chairperson	Chairman of the Supervisory Board of Centro Português de Fundações Chairman of the Supervisory Board of União das Cidades Capitais de Língua Portuguesa Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A. Chairman of the Remuneration Committee of Pharol, SGPS, S.A. Member of the Remuneration Committee of EDP – Energias de Portugal, S.A.
José Carlos Correia Mota de Andrade (*)	Member	No other positions
António Fernando Menezes Rodrigues	Member	No other positions
José António Arez Romão	Member	No other positions
Manuel Costa Duarte Ramos Lopes (**)	Member	No other positions
Vitor Manuel do Carmo Martins	Member	No other positions
Francisco José Fonseca da Silva	Member	No other positions
Acácio Jaime Liberato Mota Piloto	Member	No other positions
Luís Eduardo H. Guimarães	Member	No other positions
Rui Pedro Brás de Matos Heitor (***)	Member	
Eugénio Óscar Garcia Rosa	Member	External Consultant of CGTP-IN External Consultant of Federação Nacional dos Sindicatos da Administração Pública

(*) elected in the General Meeting of Banco Montepio held on 6 July 2016 and subject to Banco de 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 Banco Montepio held on 6 July 2016 and subject to Banco de Portugal approval, replacing Virgílio Manuel Boavista Lima that resigned following his election as member of the Board of Directors of MGAM

(***) after 1 December 2015, replacing Luísa Maria Xavier Machado

Remuneration Committee

The following were the members of Banco Montepio's Remuneration Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of Banco Montepio held on 5 August 2015:

Name	Position
Álvaro João Duarte Pinto Correia	Chairperson
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
Francisco José Fonseca da Silva (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Fernando Lopes Ribeiro Mendes

Evaluation Committee

The following are the members of Banco Montepio's Evaluation Committee, elected in the General Meeting of Banco Montepio held on 5 August 2015:

Name	Position
Álvaro João Duarte Pinto Correia	Chairperson
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
José Carlos Correia Mota de Andrade (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Fernando Lopes Ribeiro Mendes

Risk Committee

The following were the members of Banco Montepio's Risk Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of Banco Montepio held on 5 August 2015:

Name	Position
Acácio Jaime Liberato Mota Piloto	Chairperson
Virgílio Manuel Boavista Lima (*)	Member
Luís Eduardo H. Guimarães	Member
Francisco José Fonseca da Silva (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Virgílio Manuel Boavista Lima

Financial Matters Commission

The following are the members of Banco Montepio's Financial Matters Commission, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of Banco Montepio held on 5 August 2015:

Name	Position
Virgílio Manuel Boavista Lima(*)	Chairperson
Eugénio Óscar Garcia Rosa	Member
Vitor Manuel do Carmo Martins	Member
Luís Eduardo H. Guimarães(**)	Coordinator

The following are the members of Banco Montepio's Financial Matters Commission, elected in the General Meeting of Banco Montepio held on 5 August 2015

Name	Position
Virgílio Manuel Boavista Lima(*)	Chairperson
Eugénio Óscar Garcia Rosa	Member
Vitor Manuel do Carmo Martins	Member

Name	Position
Luís Eduardo H. Guimarães(**)	Coordinator

(*) ceased functions following his election as member of the General and Supervisory Board of Banco Montepio. Following his election as a member of the Board of Directors of MGAM, later he resigned as a member of the General and Supervisory Board of Banco Montepio

(**) elected as substitute of Virgílio Manuel Boavista Lima

Mandate March 2018 - 2021

Board of Directors

The current members of the Board of Directors were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the current members of the Board of Directors of Banco Montepio:

Name		Other positions
Carlos Manuel Tavares da Silva	Chairperson	Chairman of the Board of Directors of Montepio Investimento, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A.
Dulce Maria Pereira Cardoso Mota Jorge Jacinto[1]	Executive member	Vice-President of the Executive Board of Directors
Luís Eduardo Henriques Guimarães[2]	Non-executive member	No other positions
Amadeu Ferreira de Paiva	Non-executive member	No other positions
Manuel Ferreira Teixeira	Non-executive member	No other positions
Vítor Manuel do Carmo Martins	Non-executive member	No other positions
Rui Pedro Brás de Matos Heitor	Non-executive member	Member of the Board of Directors of HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Pedro Jorge Gouveia Alves[3]	Non-executive member	Chairman of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A.
Carlos Francisco Ferreira Alves[4]	Non-executive member	No other positions
Nuno Cardoso Correia da Mota Pinto	Executive member	Member of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A. Member of the Board of Directors of Montepio Holding, SGPS, S.A. Chairman of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
José Carlos Sequeira Mateus	Executive member	Member of the Board of Directors of Banco Montepio Geral Cabo Verde Member of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Montepio

		Investimento, S.A.
Pedro Miguel Nunes Ventaneira	Executive member	Member of the Board of Directors of Finibanco Angola, S.A.
		Member of the Board of Directors of Montepio Investimento, S.A.
Carlos Miguel Lopez Leiria Pinto	Executive member	Chairman of the Board of Directors of Montepio Valor, S.A.
		Member of the Board of Directors of Montepio Investimento, S.A.
Helena Catarina Gomes Soares de Moura Costa Pina	Executive member	No other positions
Leandro Rodrigues da Graça Silva[5]	Executive member	No other positions

[1] Dulce Maria Pereira Cardoso Mota Jorge Jacinto took up its duties as an executive member of the Board of Directors on 9 January 2019.
[2] Luís Eduardo Henriques Guimarães resigned as a non-executive member of the Board of Directors, on 30 September 2019.
[3] Pedro Jorge Gouveia Alves took up its duties as a non-executive member of the Board of Directors on 23 August 2018.
[4] Carlos Francisco Ferreira Alves took up its duties as a non-executive member of the Board of Directors on 15 January 2019.
[5] Leandro Rodrigues da Graça Silva took up its duties as an executive member of the Board of Directors on 9 November 2018.

Areas of responsibility of each executive member of the Board of Directors and the respective alternate Directors:

Director	Alternate Director	Area of Responsibility
Carlos Manuel Tavares da Silva	Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Management assistance office to the Board of Directors
		General Secretariat
		Economic and Financial Studies
	Audit Committee (hierarchical management)	Internal Auditing and Inspections (daily management)
Dulce Maria Pereira Cardoso Mota Jorge Jacinto	José Carlos Sequeira Mateus	Commercial Division (North and Centre)
		Commercial Division (Lisbon, South and Autonomous Regions)
		Business Support Office
	Carlos Manuel Tavares da Silva	Communication and Brand Division – institutional hierarchical management
	Leandro Rodrigues da Graça Silva	Marketing
		Strategic Marketing, Quality and Innovation
Nuno Cardoso Correia da Mota Pinto	José Carlos Mateus	Commercial Division (Institutional clients)
	Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Commercial Division (Public Sector and social support sector)
José Carlos Sequeira Mateus	Nuno Cardoso da Mota Pinto	Financial and International Division
	Pedro Miguel Nunes Ventaneira / Carlos Miguel Leiria Pinto	Financial Assets Monitoring Office
	Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Strategic Planning and Control Division
	Helena Catarina Gomes Soares de	Cost Control Office

	Moura Costa Pina	
Pedro Miguel Nunes Ventaneira	Leandro Rodrigues da Graça Silva	Risk Division
		Model Validation Office
	Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Information Management Office
	José Carlos Sequeira Mateus	Accounting and Financial Report Division
Helena Catarina Gomes Soares de Moura Costa Pina	Dulce Mota	Client Office
		Human Resources Division
	Carlos Leiria Pinto	Legal Division
		Litigation Division
	Pedro Ventaneira	Compliance Division
		Data Protection Office
Carlos Miguel Lopez Leiria Pinto	Leandro Rodrigues da Graça Silva	Credit Recovery Division
		MGAI, ACE (Real Estate)
Leandro Rodrigues da Graça Silva	Dulce Mota	Innovation and Transformation Division
	José Carlos Sequeira Mateus	IT Division
	Carlos Miguel Lopez Leiria Pinto	Managing Operations and Services Division
	Helena Catarina Gomes Soares de Moura Costa Pina	Shared Services Division
		Purchasing Division
	Pedro Ventaneira	Credit Analysis Division

General Meeting Board

The current members of the General Meeting Board were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the current members of the General Meeting Board of Banco Montepio:

Name		**Other positions**
António Manuel Lopes Tavares	Chairperson	Not applicable
Cassiano da Cunha Calvão	Secretary	Not applicable

Audit Committee

The current members of the Audit Committee were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the members of the Audit Committee of Banco Montepio:

Name		**Other positions**
Luís Eduardo Henriques Guimarães[1]	Chairperson[1]	No other positions
Manuel Ferreira Teixeira[2]	Chairperson[2]	No other positions
Amadeu Ferreira de Paiva	Member	No other positions
Vítor Manuel do Carmo Martins	Member	No other positions

Carlos Francisco Ferreira Alves	Member	No other positions

[1] Luís Eduardo Henriques Guimarães resigned as Chairman of the Audit Committee on 30 September 2019.
[2] Manuel Ferreira Teixeira took up their duties as Chairperson of the Audit Committee on 1 October 2019.

Remuneration, Appointments and Evaluations Committee

Name	
Manuel Ferreira Teixeira	Chairman
Carlos Francisco Ferreira Alves	Member
Amadeu Ferreira de Paiva	Member

Risk Committee

Name	
Luís Eduardo Henriques Guimarães[1]	Chairman[1]
Vítor Manuel do Carmo Martins[2]	Chairman[2]
Manuel Ferreira Teixeira	Member
Rui Pedro Brás de Matos Heitor	Member

[1] Luís Eduardo Henriques Guimarães resigned as a non-executive member of the Board of Directors on 30 September 2019.
[2] Vítor Manuel do Carmo Martins took up their duties as Chairperson of the Risk Committee on 3 October 2019.

Corporate Governance, Ethics and Sustainability Committee

Name	
Carlos Manuel Tavares da Silva	Chairman
Carlos Francisco Ferreira Alves	Member
Rui Pedro Brás de Matos Heitor	Member

Statutory Auditor

The following are the members of the Statutory Auditor for the period 2016-2018:

KPMG & Associados - SROC, S.A., registered at CMVM with the number 9098, the Head Office at Edifício Monumental, Av. Praia da Vitória, number 71-A, 11th floor, 1069-006 Lisbon.

In the General Meeting held on 30 December 2015, KPMG & Associados - SROC, S.A., represented by Ana Cristina Soares Valente Dourado (ROC nº1011) was elected for the term 2016/2018, responsible for the audit and certification of the annual accounts during the two 12 month periods ended 31 December 2017 and 31 December 2016, respectively.

In July 2018 Ana Cristina Soares Valente Dourado (ROC no. 1011) was substituted by Hugo Jorge Gonçalves Cláudio (ROC no. 1597).

The following is the Statutory Auditor for the period 2019-2021:

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., registered at CMVM with the number 20161485, with Head Office at Palácio Sottomayor, Rua Sousa Martins, number 1 – 3rd floor, 1069-316 Lisbon, represented by José Manuel Henriques Bernardo (ROC no. 903) and Carlos José Figueiredo Rodrigues (ROC no. 1737), was elected for the term 2019-2021 in the General meeting held on 27 May 2019. PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. is a member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*). PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. has no material interest in the Issuer.

According to the new articles of association, the areas of focus of each governing body and corporate body are as follows:

General Meeting

A General Meeting of Banco Montepio shall consist of shareholders who have voting rights. Each share shall represent one vote. Only those shareholders with voting rights may attend, speak and vote at a General Meeting, in person or through a representative, who at the registration date, which is equal to zero hours (GMT) on the fifth working day prior to the holding of the Meeting ("**Registration Date**"), are the owners of at least one share.

The General Meeting Board shall consist of a Chair and a Secretary, elected at a General Meeting. The Chair is required to:

1. call the General Meeting and chair its proceedings;
2. inform the appropriate authorities, within the legal deadlines, of the outcomes of General Meeting decisions and the names of those elected to the Company's Governing Bodies;
3. vest the members of the Governing Bodies, of Corporate Offices and members of Committees elected at a General Meeting with their respective powers;
4. consider any justifications of absence submitted; and
5. accept and deal with appeals lodged with the General Meeting of Shareholders pursuant to the law and within the official deadlines.

An ordinary General Meeting shall discuss the matters submitted to the Annual General Meeting, under article 376, no.1 of the Commercial Companies Code (*Código das Sociedades Comerciais*), plus any other matters included on the agenda, and an extraordinary meeting shall be held whenever one is convened in accordance with the law and these Articles of Association.

General Meeting decisions shall be taken by a simple majority of votes cast, unless otherwise prescribed under the law or the Articles of Association. General Meeting decisions regarding changes to the Articles of Association, a merger, splits, transformation or winding-up of the Company shall only be valid if they are approved by a 2/3 (two-thirds) of the votes cast.

General Meetings of Banco Montepio shall take decisions on the matters assigned them by the law and the Articles of Association, and it is charged with:

1. electing members of the General Meeting Board the Governing Bodies;
2. electing the Statutory Auditor, following a proposal from the Audit Committee;
3. electing, every four years, a Remuneration Committee comprised of three independent members empowered to set the remuneration of Governing Bodies members, pursuant to article 399, no.1 of the Commercial Companies Code (*Código das Sociedades Comerciais*);
4. discussing the management report, the individual and consolidated accounts for the year and the proposed profit distribution;

5. conducting a general appraisal of Banco Montepio's management and supervision, with the scope laid down in the law;
6. assessing the guidelines set out in the multiannual plans and updates, following a proposal from the Board of Directors;
7. discussing the Company's geographical presence policy;
8. discussing the Board of Directors' report on subsidiaries;
9. being informed, pursuant to the law, of appeals lodged.

Board of Directors

The Board of Directors shall be comprised of a minimum of 12 and maximum of 19 members, including a non-executive Chair and an executive Vice-Chair, all of whom shall be elected at a General Meeting.

The Board of Directors shall act as a body and may take decisions as long as a majority of its members is present. It shall meet as often as it deems necessary and at least once a month. Decisions shall be taken on the basis of the majority of votes cast by the members present, and the Chair shall have a casting vote.

Notwithstanding the other duties assigned by law, the Board of Directors is charged with managing Banco Montepio, in particular:

1. requesting the convening of General Meetings;
2. the annual drawing up of the management report, the individual and consolidated accounts for the year and the proposed profit distribution, to be accompanied by the Audit Committee's opinion, to be submitted to the Annual General Meeting for approval;
3. approving, annually, the action program and the budget for the following year, after receiving the Audit Committee's opinion;
4. discussing the purchase, sale and encumbrance of assets;
5. discussing the opening and closure of offices and any other form of representation;
6. discussing the expansion and curtailing of Banco Montepio's business and changes to its functional structure;
7. setting, in general terms, the interest rates, commissions, and prices to apply to banking transactions and services rendered;
8. discussing the signing and termination of cooperation agreements with other institutions and Banco Montepio's membership of associations;
9. discussing the issuing of bond loans and non-convertible debt instruments;
10. discussing the purchase, sale or encumbrance of any financial holdings in companies or groups of companies;
11. requesting admission to trading on a regulated market of securities issued by Banco Montepio;
12. drawing up mergers, split and transformation proposals;
13. setting up the committees and commissions it deems necessary to fulfil its duties, including a Remuneration, Appointments and Evaluations Committee and a Risk Committee, and appointing their members and chairs;

14. representing Banco Montepio in or out of court, and undertake to abide by arbitration;
15. co-opting Directors;
16. appointing the Company Secretary and his/her alternate;
17. appointing Banco Montepio's representatives to the governing bodies of institutions in which it has holdings or is a member.

The Board of Directors is charged with delegating the day-to-day management of Banco Montepio to an Executive Committee, as well as charging one or more directors with the handling of certain management matters, within the legally defined limits.

The Board of Directors shall define the make-up, operating rules and the powers of the Executive Committee, and shall appoint its chair, who shall be the Board of Directors vice-chair, and it may appoint a vice-chair.

In addition to the committees referred to in the Articles of Association, the Board of Directors may also approve the setting up of committees to monitor, on a permanent basis, specific matters, and such committees shall be chaired by a member of the Board of Directors.

Audit Committee

The Audit Committee shall be comprised of at least 3 and a maximum of 5 members, elected at a General Meeting from among the non-executive members of the Board of Directors. If one is not appointed by the General Meeting, the Audit Committee shall nominate a Chair from among its members.

Notwithstanding any legal requirements, the Audit Committee shall undertake a permanent assessment of Banco Montepio, in particular as regards its financial performance, the devising of the institution's strategy and general policies, the group's business structure and the decisions deemed strategic due to the sums or risks involved and, in particular:

1. monitor Banco Montepio's management;
2. monitor compliance with the law and the Articles of Association;
3. check the correctness of the company's ledgers, accounting records and supporting documents;
4. check the accuracy of the accounting documents;
5. check whether the accounting policies and valuation criteria employed by Banco Montepio ensure the proper valuation of its assets and profits;
6. draw up an annual report on its audit work and give its opinion on the report, accounts and proposals submitted by the Board, as well as on the action plan and budget;
7. convene a General Meeting whenever the Chair of the General Meeting Board fails to do so;
8. monitor the effectiveness of the risk management system, the internal control system and the internal audit system;
9. receive notices of irregularities sent by Banco Montepio shareholders, employees or others;
10. monitor the preparation and disclosure of financial information;
11. propose to the General Meeting the appointment of a particular Statutory Auditor;

12. monitor the auditing of Banco Montepio's financial statements;

13. monitor the independence of the Statutory Auditor, particularly in regard to the provision of additional services.

The Audit Committee Chair shall convene and preside over meetings of the Audit Committee, and shall have a casting vote.

The Audit Committee shall meet as often as it deems necessary and at least once a month, and whenever convened by its Chair, on his/her own initiative or at the request of any of its members or of the Chair of the Board of Directors.

Whenever it deems it necessary, the Audit Committee shall summon to its working sessions any persons belonging to the Banco Montepio structure, as well as the external auditors.

Members of the Audit Committee shall take part in meetings of the Executive Committee whenever the accounts for the year are appraised.

The Audit Committee shall keep a written record of all checks, audits and complaints received and action taken, and the respective outcomes.

Remuneration, Appointments and Evaluations Committee

The Remuneration, Appointments and Evaluations Committee shall be comprised of three members, including a Chair appointed by the Board of Directors from among its nonexecutive members or from among the members of the Audit Committee, and a majority of them, including the Chair, shall have the status of independent.

Members of the Remuneration, Appointments and Evaluations Committee shall be duly qualified to discuss the subjects they deal with, and at least one member shall have knowledge and experience of remuneration policy matters.

The Remuneration, Appointments and Evaluations Committee shall perform the legal duties relating to remuneration policy in keeping with the law.

The Remuneration, Appointments and Evaluations Committee shall also state its opinion as to the suitability of the proposed supplementary retirement pension, for old age or disability, schemes for directors, to be approved by way of specific regulations at a General Meeting, pursuant to article 402 of the Commercial Companies Code (Código das Sociedades Comerciais).

At least one member of the Remuneration, Appointments and Evaluations Committee shall be present at General Meetings that discuss matters falling within its mandate.

The Remuneration, Appointments and Evaluations Committee shall draw up minutes of its meetings.

Risk Committee

The Risk Committee shall consist of three members, including a Chair, appointed by the Board of Directors from among its non-executive members or from among Audit Committee members, who possess the knowledge, skills and experience required by law. A majority of Risk Committee members, including the Chair, shall have the status of independent.

The Risk Committee is charged with performing the duties set out in the law and, in particular:

a) advising the Board of Directors as to Banco Montepio's risk appetite and its general, current and future risk strategy;

b) assisting the Board of Directors in its supervision of the implementation of Banco Montepio's risk strategy;

c) analysing the terms and conditions of Banco Montepio's products and services and providing the Board of Directors with a correction plan whenever its analysis shows that the terms and conditions do not adequately reflect the risk.;

d) examining whether the incentives defined in Banco Montepio's remuneration policy take into consideration risk, capital, liquidity and expectations as to results.

The Committee shall draw up minutes of its meetings.

Corporate Governance, Ethics and Sustainability Committee

The Corporate Governance, Ethics and Sustainability Committee shall be comprised of three members, including a Chair appointed by the Board of Directors from among its non-executive members or from among the members of the Audit Committee, and shall possess the knowledge, experience, skills, understanding and personal qualities for the proper performance of their duties.

The Corporate Governance, Ethics and Sustainability Committee is responsible, among others, to support the Board of Directors in promoting a healthy governance culture within Banco Montepio and its subsidiaries; propose the adoption of a corporate governance code or the adoption of appropriate governance guidelines; support the Board of Directors in particular by reviewing existing documents and proposing amendments; analyze corporate governance and propose changes that improve the decision-making process and improve the performance of the inherent functions; analyze the typology of committees and propose changes that will improve the efficiency of corporate governance; oversee the preparation of the Annual Corporate Governance Report; issue an opinion on the Conflict of Interest Policy, Code of Conduct and other documents that define ethical principles for doing business, when requested by the Board of Directors, or taking the initiative to review existing documents and propose amendments; assess mechanisms for monitoring compliance with sustainability policy, with particular attention to the impact on the social support sector.

This Committee shall draw up minutes of its meetings.

The Statutory Auditor

The Statutory Auditor, elected at a General Meeting, following a proposal from the Audit Committee, shall possess the skills required by law, namely by the Commercial Companies Code (*Código das Sociedades Comerciais*). The Statutory Auditor shall attend General Meetings at which the accounts are appraised and whenever his presence is requested.

Conflicts of Interest

While all the members of the Governing Bodies mentioned above represent Banco Montepio on their respective boards, none of them have any conflict or potential conflict between their duties to Banco Montepio and their private interests or other principal activities as listed above.

Business Addresses

The business address of each of the Directors, the Board of Directors and the Audit Committee Members listed above is Rua Castilho, number 5, 10th floor, postal code 1250-066, Lisbon, Portugal.

BANCO MONTEPIO AND ITS RELATIONSHIP WITH MGAM

The information disclosed below in relation to Montepio Geral Associação Mutualista (MGAM) is presented for information only. MGAM is not responsible for payments on the Notes issued under the Programme which are the sole responsibility of Banco Montepio.

Banco Montepio is a savings bank (*caixa económica bancária*) organised as public limited liability company (*sociedade anónima*) which is authorised to carry on business as a universal bank, under the supervision of Banco de Portugal. It has separate legal personality and its majority shareholder is MGAM, with 99.99 per cent. shareholding. MGAM has no responsibility in respect of Banco Montepio's debts. MGAM has not guaranteed the Notes.

Banco Montepio was established by MGAM as a dependent entity of MGAM with a view to paying MGAM its annual net profits (subject to any deduction required by Banco Montepio's Articles of Association) so as to enable MGAM to meet its own objectives as a mutual benefit association (*associação mutualista*).

MGAM is a "private institution of social support" (i.e. a *instituição particular de solidariedade social* of the mutual benefits association type) whose principal goals are to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them. MGAM is not permitted to carry out banking or trading activities. It is limited to its principal social welfare objects. MGAM can, however, establish subsidiaries and can invest its funds in a number of ways. It is subject to the Portuguese Mutual Association Code. As at 31 December 2018, the total number of MGAM's permanent members was 612,607. The welfare schemes which MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes.

MGAM's main source of funds is membership revenues. Those funds are invested in property and a number of different types of securities and equity participations, particularly financial institutions (including its interest in Banco Montepio). It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

MGAM is under no legal obligation to increase Banco Montepio's share capital or otherwise to support Banco Montepio.

OUTLINE OF THE PERFORMANCE OF THE BANCO MONTEPIO GROUP'S COMPANIES

MONTEPIO HOLDING, SGPS, S.A.

In June 2013, Finibanco Holding, SGPS, S.A. changed its corporate name to Montepio Holding, SGPS, S.A.

Montepio Holding, SGPS, S.A. is a holding company, with a 100 per cent. stake in Montepio Investimento S.A., Montepio Crédito, IFIC, S.A. and Montepio Valor, SGFI, S.A., and an 80.2 per cent. stake in Finibanco Angola, S.A.

MONTEPIO INVESTIMENTO, S.A.

Montepio Investimento, S.A., a bank 100 per cent. controlled by the Banco Montepio Group, pursued, in 2018, a strategic goal directed towards Investment Banking, in particular in the sphere of providing advisory services to companies, namely SMEs, in the areas of "Corporate Finance" and "Financial Advisory", aimed at supplementing the Banco Montepio Group's offer of products and services.

As at 31 December 2018, the net assets of Montepio Investimento, S.A. stood at €200.1 million, compared to €225.3 million recorded at the end of December 2017.

The heading of loans and advances to credit institutions repayable on demand, which records the amounts invested in Caixa Económica Montepio Geral, caixa económica bancária S.A., stood at €1.7 million as at 31 December 2018, decreasing by €11.5 million in relation to the value recorded at the end of 2017 (€13.2 million).

Net loan portfolio amounted to €27.6 million at the end of 2018, compared to €38.4 million recorded at the end of 2017, corresponding to a reduction of €10.8 million and reflecting the amortisation of the equipment leasing and real estate leasing portfolios.

As at 31 December 2018, the heading of financial assets not held for trading mandatorily at fair value through profit or loss amounted to €91.6 million, related to the accounting reclassification of investment units which, up to 31 December 2017, had been classified in the portfolio of financial assets at fair value through other comprehensive income. As a consequence of this reclassification, the heading of financial assets at fair value through other comprehensive income stood at €51.5 million as at 31 December 2018, compared to €145.5 million recorded at the end of 2017.

Non-current assets held for sale amounted to €19.8 million as at 31 December 2018, compared to €22.4 million recorded at the end of 2017, essentially corresponding to real estate properties derived from the customers' loans foreclosures.

As at 31 December 2018, resources from other credit institutions and equity continued to be the main sources of asset funding, representing 97.8 per cent. of total assets (99.1 per cent. in 2017).

The heading of resources from other credit institutions refers to loans from Caixa Económica Montepio Geral, standing at €10.0 million as at 31 December 2018, having decreased from €35.1 million recorded at the end of 2017.

Equity reached €185.6 million as at 31 December 2018, showing a decrease of 1.4 per cent. in relation to the value recorded at the end of 2017 of €188.2 million, revealing the decrease of revaluation reserves and net income for the year.

The net income recorded in 2018 was a loss of €0.6 million, compared to €1.8 million recorded in 2017, revealing the adverse impact recorded in terms of total operating income determined by the lower gains stated in results from financial operations and by the reduction in results from sale of other assets, despite the reductions observed in operating costs and the lower level of impairments and provisions recorded in the period.

Net interest income in 2018 reached €2.7 million, compared to €2.9 million recorded in 2017 (a decrease of €0.2 million), reflecting, the reduction observed in interest of loan portfolio and in interest of demand deposits, of a total of €0.5 million, and the decrease of interest of loans of €0.3 million.

Net fees and commissions stood at €1.2 million in 2018, reflecting an increase of €0.5 million compared to the value recorded in 2017, primarily derived from fees and commissions on the structuring of operations.

The results from financial operations amounted to a loss of €1.1 million in 2018, compared to a profit of €0.4 million recorded in 2017, reflecting the accounting reclassification carried out in June 2018 related to the adoption of IFRS 9 with respect to the investment units of the securities portfolio. The funds of the securities portfolio, formerly classified under assets at fair value through other comprehensive income, were reclassified under other financial assets at fair value through profit or loss, and, as a consequence of this reclassification, the fair value reserves associated to these funds were reclassified through profit or loss.

The heading of results from sale of other assets, which records the result of the sale of real estate properties derived from the award of properties under financial leasing at Montepio Investimento S.A. and properties classified as non-current assets held for sale, stood at €0.6 million in 2018, compared to €2.0 million in 2017.

Other operating income was negative by €0.4 million, nevertheless, compares favourably with a loss of €0.5 million recorded in 2017, primarily reflecting the lower taxes (*Imposto Único de Circulação* (road tax) and *Imposto Municipal sobre Imóveis* (municipal property tax)) and lower expenses related to properties held for sale.

Operating costs stood at €1.2 million in 2018, having fallen by 29.4 per cent. in relation to the value stated in 2017, as a result of the reduction recorded in the headings of staff costs and general and administrative expenses, in this case determined by the 26.7 per cent. decrease observed in the component of specialised services, with amortisation and depreciation for the year having remained at the same level as the previous year.

The reduction observed in total operating income, partially offset by the decrease of operating costs, led to the cost-to-income ratio reaching 40.0 per cent. in 2018, compared to 30.4 per cent. recorded in 2017.

Impairments and provisions for 2018 reached a decrease of €0.2 million, having decreased in relation to the amount stated in 2017 of €1.1 million, essentially reflecting the reversal of credit impairments and the lower allocations for impairment of other financial assets in relation to 2017.

Income tax for the year includes the effect of current and deferred tax calculated in accordance with the taxation system in force. In 2018, current and deferred taxes amounted to €2.6 million, compared to €1.0 million recorded in 2017.

In May 2019, Montepio Investimento S.A. was relaunched with a new brand, called Banco Empresas Montepio. This new project aims to bring together Banco Empresas Montepio’s corporate banking and investment banking in one entity, presenting an integrated offer in the areas of corporate finance, debt and equity capital markets, advisory, structured finance, equity and debt distribution along with money lending.

MONTEPIO CRÉDITO – INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100 per cent. controlled by the Banco Montepio Group, offers specialised credit in the motor vehicle, home and services, and equipment segments, supplemented by a series of solutions for individual customers, companies and institutions that support the welfare of Portugal’s citizens.

As a result of the repositioning made in terms of the Banco Montepio Group and the strong and solid relations established with its partners, based on the experience acquired over the years, Montepio Crédito has developed a specialised offer of solutions and credit in the following areas: Motor Vehicle, Health, Motor Vehicle Repair, Telecommunications and Furniture for the segment of individuals; and Logistics, Water, Transport, Energy, Energy Efficiency and Industry for the segment of companies.

As at 31 December 2018, net assets reached €489.7 million, showing growth of 10.6 per cent. in relation to the value recorded at the end of 2017.

Loan portfolio amounted to €432.8 million as at 31 December 2018, compared to €406.3 million recorded at the end of 2017, showing an increase of 6.5 per cent.

In 2018, resources from other credit institutions and debt securities issued continued to be the main sources of asset funding, representing 86.4 per cent. of total assets as at 31 December 2018 (86.6 per cent. at the end of 2017).

The heading of resources from other credit institutions stood at €268.6 million as at 31 December 2018, having increased by 17.2 per cent. in relation to the value recorded at the end of 2017.

The heading of debt securities issued, composed of "Pelican Finance No. 1" and "Aqua Finance 4" bonds, stood at €154.3 million as at 31 December 2018, in line with the value recorded at the end of 2017 (€154.1 million).

Equity reached €51.1 million as at 31 December 2018, showing an increase of 16.1 per cent. in relation to the value recorded at the end of 2017 of €44.1 million, revealing the increase of net income for the year.

The net income for 2018 amounted to €8.0 million, increasing in relation to the €2.9 million recorded in 2017, presenting an increase of €5.1 million, primarily influenced by customers' loans impairment reversal in an amount of €5.1 million.

Total operating income came to €16.1 million in 2018, comparing favourably with the €15.5 million recorded in 2017, essentially due to the recovery of the results from financial operations and the increase of net fees and commissions in relation to the previous year.

Net interest income stood at €12.8 million in 2018, corresponding to a reduction of 8.2 per cent. in relation to the value of €13.9 million recorded in 2017, fundamentally determined by the decrease of the commercial net interest income, via interest of loan portfolio and by the increase in securitisation operations.

Net fees and commissions reached €3.6 million in 2018, compared to €2.7 million recorded in 2017, representing an increase of 31.3 per cent., primarily reflecting the increase of the income gained from payment services and fees received from cross-sale of insurance products in the life and non-life segments, combined with the decrease of other costs.

The results from financial operations stood at €0.1 million in 2018, evolving favourably in relation to the a loss of €1.0 million recorded in 2017.

Other operating income was negative by €0.3 million in 2018, compared to the decrease of €0.2 million recorded in 2017, reflecting the evolution of other operating expenses, namely related to operational leasing services (equipment maintenance) and losses in financial leasing operations.

Operating costs amounted to €11.3 million in 2018, corresponding to an increase of €0.6 million (an increase of 6.0 per cent.) in relation to the end of 2017, caused by the increased staff costs (an increase of 9.8 per cent.) and general and administrative expenses (an increase of 2.0 per cent.), not offset by the reduction of depreciation and amortisation (a decrease of 0.5 per cent.).

The increase of staff costs, which stood at €6.1 million in 2018, reflecting an increase of €0.6 million compared to the value recorded in 2017, was primarily caused by the increased expenses related to the pension fund and remunerations. General and administrative expenses, which amounted to €4.9 million in 2018, revealing the increase recorded in other expenses related to services, namely agreements and fees and court costs, notwithstanding the reduction observed in costs related to marketing and advertising.

The increase of total operating income, and operating costs, contributed to the cost-to-Income ratio reaching 70.4 per cent. at the end of 2018, compared to 68.7 per cent. recorded in 2017.

Impairment and provisions stood at a decrease of €6.3 million in 2018, compared to €0.9 million recorded in 2017. This evolution was influenced by the reversal of customer loan impairments associated to the POCI (Purchased or originated credit impaired financial assets) operation in December 2018, and the reversal of impairments of the credit portfolio.

Income tax for the year includes the effect of current and deferred tax calculated in accordance with the taxation system in force. In 2018, current and deferred taxes amounted to €3.1 million, compared to €1.1 million recorded in 2017.

Montepio Valor – Sociedade Gestora de Fundos de Investimento,S.A.

Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. (Montepio Valor) is 100 per cent. controlled by Montepio Holding SGPS, S.A., with its corporate object being the management of real estate investment funds.

The Net assets of Montepio Valor reached €5.5 million as at 31 December 2018, showing a 4.6 per cent. reduction in relation to the value recorded at the end of 2017, where special note should be made of the deconsolidation of Fundo de Investimento Imobiliário Aberto Valor Prime (Valor Prime Open Real Estate Investment Fund) on 31 March 2018.

As at 31 December 2018, the aggregate value of Cash and deposits at central banks and loans and advances to credit institutions amounted to €4.8 million, revealing an increase of €0.2 million compared to the amount recorded at the end of 2017 (+3.0 per cent.).

Assets under management amounted to €509.8 million as at 31 December 2018, comparing favourably with €486.3 million recorded as at 31 December 2017.

Equity reached €4.4 million as at 31 December 2018, showing a reduction in relation to the €4.9 million recorded at the end of 2017, reflecting the unfavourable evolution of Net income for the year.

The Net income recorded in 2018 was €0.3 million, compared to €0.7 million recorded in 2017, reflecting the impact of the constitution of Other provisions, despite the decrease in Operating costs and increase in Net fees and commissions.

Total operating income reached €4.3 million in 2018, comparing favourably to €4.2 million recorded in 2017, showing an increase of 1.8 per cent., underpinned by the performance of Net fees and commissions.

Net interest income for 2018 reached €17.1 thousand, compared to €20.8 thousand recorded in 2017 (-17.8 per cent.), reflecting the lower income from the investment of surplus liquidity.

Net fees and commissions stood at €4.1 million in 2018, evolving favourably in relation to the value recorded in 2017 of €4.0 million (+3.2 per cent.), reflecting the increased occurred in net market fees, which include fees for management, administration and custody of assets and for operations on securities.

Other operating income stood at €195.6 thousand, compared to €241.1 thousand recorded in 2017 (-18.9 per cent.), due to the lower revenue on the one side and higher costs on the other side.

Operating costs amounted to €3.4 million in 2018, compared to €3.3 million stated in 2017, reflecting a 0.7 per cent. increase as a result of the higher Staff costs (+19.8 per cent.) and Depreciation and amortisation (+53.2 per cent.), and despite the reduction recorded in General administrative expenses (-9.2 per cent.). The increase observed in Staff costs in relation to 2017, essentially reflects the increase of remunerations, namely those allocated to the management and supervisory bodies. The reduction in General administrative expenses reflects the decrease in expenses related to other services, especially via the absence of hiring of temporary employment services in 2018 relative to 2017, and the reduction of expenses related to consultants and external auditors.

The evolution of Total operating income, on the one hand, and Operating Costs, on the other hand, contributed to the Cost-to-Income ratio standing at 77.7 per cent. at the end of 2018, compared to 78.6 per cent. in 2017.

Impairments and provisions for 2018 reached €0.5 million, essentially reflecting the allocations to Other provisions constituted during the year.

Income tax for the year includes the effect of current and deferred tax calculated in conformity with the taxation system in force. In 2018, Current and deferred taxes amounted to €0.1 million, compared to €0.2 million recorded in 2017.

SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.

SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. (SSAGINCENTIVE), is 100 per cent. controlled by Banco Montepio through Montepio Holding, SGPS, S.A., with its corporate object being the trading and management of real estate properties required for the installation and operation of the credit institutions or financial companies that are its shareholders and/or of the companies in a group or controlling relationship with it. Furthermore, the corporate object also includes the management and purchase for resale of real estate properties acquired by its shareholders and/or companies in a group or controlling relationship with it as a result of the repayment of credit belonging to them.

As at 31 December 2018, the Assets of SSAGINCENTIVE amounted to €59.8 million, showing a 2.6 per cent. decline in relation to the value recorded at the end of 2017 (€61.4 million).

The heading of Inventories evolved from €51.8 million at the end of December 2017 to €47.5 million as at 31 December 2018, of which €27.3 million refer to buildings and €20.2 million to plots of land, reflecting the acquisitions from Banco Montepio, namely related to real estate properties intended for sale, namely Property divisions stated at market value.

The heading of Cash and bank deposits amounted to €12.1 million as at 31 December 2018, showing an increase of €3.4 million in relation to €8.7 million recorded at the end of 2017, revealing the deposits made in Banco Montepio.

As at 31 December 2018, Equity stood at €59.7 million, compared to €61.2 million at the end of 2017, reflecting the unfavourable impact of Net income for the year in 2018 which was negative by €1.5 million.

Sales and services rendered reached €3.9 million in 2018, representing a reduction of €0.9 million compared to the value stated in 2017, corresponding to the amounts derived from inventory sales, under the current business activity of SSAGINCENTIVE.

The heading of Cost of goods sold and materials consumed reached €3.6 million in 2018, representing the acquisition cost of the sold real estate properties, after deduction of the respective impairment.

The heading of Impairment of inventories recorded a favourable evolution in shifting from a cost of €2.9 million in 2017 to €0.8 million in 2018.

The heading of Other costs, which includes costs related to the maintenance, legalisation and promotion of the sale of real estate properties, amounted to €0.6 million in 2018, compared to €0.5 million in 2017.

The Net income for 2018 stood at –€1.5 million, reflecting a favourable evolution in relation to the value of –€3.1 million recorded in 2017, benefiting from the lower level of Impairments and provisions stated in 2018.

THE PORTUGUESE BANKING SECTOR

Portugal is a founding member of the Economic and Monetary European Union and adopted the single European currency, the euro, on 1 January 1999. To be part of such an important project and to become a Euro-zone member, Portugal had to implement convergence policies and a steady process of deregulation and liberalisation of the financial sector, which has resulted in important structural and operational changes in banking regulations in order to bring them into line with European Commission ("**EC**") legislative practice.

Regulations governing financial institutions have undergone a series of amendments since 1992. In particular, the RGICSF, establishes the conditions for the access to the activity of credit institutions and financial companies. It largely reflects the European Union ("**EU**") Directives in this field, and covers the following aspects: authorisation and registration procedures; assessment of the suitability of qualifying shareholders; assessment of the suitability and professional qualifications of the members of the management and auditing boards; rules of conduct and relationship with clients; cooperation with other authorities; rules and prudential limits, including on capital buffer requirements; supervisory procedures; corrective measures, interim management and resolution; deposit guarantee; penalty framework.

The RGICSF introduced a comprehensive regulatory framework into Portugal in line with EC directives, which adopted the "universal bank" model and included several regulatory measures such as: the prudential requirements for credit institutions and investment firms (Basel III); the strengthening of the "fit and proper evaluation" for members of corporate bodies and other relevant officials; the establishment of prudential and supervisory rules; the regulation for foreign banks operating in Portugal and Portuguese banks operating abroad; the restrictions in the social bodies' remuneration policy.

The increasingly competitive environment gave rise to a number of acquisitions amongst Portuguese banks and the establishment of larger financial groups in Portugal, more cross-selling initiatives, and increased focus on the expansion of the market for personal loans, mortgages and credit cards in Portugal, more frequent advertising campaigns and competitive pricing strategies.

In April 2011, the sovereign debt crisis forced Portugal to request external financial assistance from the European Financial Stability Facility ("**EFSF**") and from the International Monetary Fund ("**IMF**"), which was formalised on 17 May 2011, with the execution of the Memorandum of Understanding ("**MoU**"), which set out the main measures and the main goals to be achieved under the FAP.

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 largest banking groups were required to draw up a Funding and Capital Plan ("**FCP**") to remain in effect until 2015. It imposed several goals in order to reinforce the financial stability in the banking sector and to improve the comparability and transparency of information on liquidity, capital and asset quality, in view of the best international practices.

The package of measures aimed at the financial sector also included an increase to €35 billion in the amount of the state's guarantee for bond issues, and reinforcement of the banks' recapitalisation mechanism to €12 billion through Law 48/2011 of 1 April. In 2012, Law 4/2012 of 11 January was published. It laid down further amendments to the rules of access to the state recapitalisation plan by credit institutions provided for in Law 63-A/2008 of 24 November 2008.

In Portugal, there was also an agreement between the banking sector and the government on the transfer of bank employees' pension funds to the general Social Security scheme, as enshrined in Decree-Law no. 127/2011 of 31 December 2011, as a way of achieving the budget deficit target for 2011. In addition to FCPs, the FAP for Portugal imposed a special inspection programme ("**SIP**") for banks in 2011 and the first quarter of 2012. It was divided into three phases: assessing the quality of credit portfolios, calculating capital requirements for credit risk and establishing stress test methods and models. The end-results of the SIP announced in March 2012, concluded that risk assessments in the Portuguese banking system were satisfactory and that the banking system had demonstrated financial resilience and strength which reinforced the credibility of the Portuguese system.

As forborne exposures (following the amendments and updates to loans' terms and conditions due to borrowers' financial difficulties) represents a major role in the assessment of credit risk, Banco de Portugal published Instruction (*Instrução*) 18/2012, as amended, in order to establish the requirements on identifying and reporting restructured loans, which banks are required to disclose in their annual reports, since December 2013.

In 2012, in order to monitor the exposure to the Construction and Real Estate sectors, Banco de Portugal endorsed the On-site Inspections Programme ("**OIP**"). This programme, which involved the eight major Portuguese banking groups set out to assess the adequacy of the recorded impairment levels to the quality of the Construction and Real Estate credit portfolios, as at 30 June 2012. It was estimated that for the eight banking groups inspected it would be necessary to increase impairment by €861 million.

In 2012, the largest Portuguese banking groups underwent significant capitalisation operations in order to cater for SIP and OIP and to fulfil the minimum capital ratios as defined in the programme of economic and financial assistance from December 2012 onwards, Banco de Portugal Notice (*Aviso*) 3/2011 (as amended). The capitalisation process has strengthened the credit institutions' solvency and their ability to absorb possible future losses.

In 2013, considering the then current economic situation, the projection for the FCP was extended until 2017 with some requirements being relaxed. The temporary credit to deposit ratio limit of 120 per cent. was removed and it became recommended to pursue a sustainable leverage. Banks were encouraged to reduce their dependence on Eurosystem liquidity over the medium term, consistent with the reopening of wholesale financial markets access.

On 30 July 2014, Banco Espírito Santo, S.A. ("**BES**") announced losses largely above the foreseeable values in the light of information disclosed by BES and its external auditor. The results disclosed on 30 July 2014 reflected the practice of management acts seriously detrimental to the interests of BES and the violation of determinations of Banco de Portugal that prohibited an increase in the exposure to other entities of the Grupo Espírito Santo. This situation had several consequences:

- BES ceased to comply with the minimum solvency ratios in force (BES's CET1 ratio fell to 5 per cent., i.e. 3 percentage points below the minimum regulatory level);
- access of BES to monetary policy operations and therefore to the liquidity provided by the Eurosystem was suspended;
- increasing pressure was generated on BES cash flows;
- the public perception of BES deteriorated further, as shown by the negative performance of its securities, undermining depositors' confidence. This negative public perception led to the suspension of transactions on 1 August 2014, with the risk of contaminating the perception regarding the other institutions of the Portuguese banking system; and
- aggravated uncertainty about BES's balance sheet made a private capitalisation solution unfeasible in the short run.

Against this background, problems arose regarding the continuity of BES activity. Considering the importance of BES in the Portuguese banking system and in the financing to the economy, these problems endangered the stability of the national payment and financial systems, which prompted an imperative and very urgent intervention by Banco de Portugal.

*The resolution measure applied to Banco Espírito Santo S.A. ("**BES**")*

The Board of Directors of Banco de Portugal decided on 3 August 2014 to apply a resolution measure to BES. The general activity and assets of BES were transferred, immediately and definitively, to a bridge bank, Novo Banco, S.A. ("**Novo Banco**"), which was specifically set up for this purpose with management appointed by Banco de Portugal, which was duly capitalised and held no problem assets. Deposits have been fully preserved, as well as all unsubordinated bonds.

The contents of the contractual relationship with the customers remained unchanged. The branches of Novo Banco continued to operate as usual and the BES' employees became Novo Banco's employees, their rights being safeguarded.

With the application of a resolution measure to BES a separation was made between:

problem assets, which in essence corresponded to liabilities of other entities of the Grupo Espírito Santo and to shareholdings of Banco Espírito Santo Angola, S.A. whose losses were borne by the shareholders and subordinated creditors of BES; and

the remaining assets and liabilities, which were integrated in Novo Banco, a duly capitalised bank, and ensured full continuity of the institution's activity, with no impact on its customers, collaborators or suppliers.

In line with the EC regulatory framework, the capitalisation of Novo Banco was ensured by the Resolution Fund, supported by the financial sector, and the losses related to problem assets were borne by shareholders and subordinated creditors of BES. Novo Banco is subject to Banco de Portugal's supervision and is obliged to comply with all legal and regulatory rules applicable to Portuguese banks.

The equity capital of Novo Banco, to the amount of €4.9 billion, was fully underwritten by the Resolution Fund. The Resolution Fund's sources of funding are the contributions paid by its member institutions and the proceeds from the levy over the banking sector, which, according to applicable regulations, are collected without jeopardising the solvency ratios.

As the Resolution Fund started its operations in 2012 and did not have sufficient financial resources available to finance the resolution measure applied to BES, the Resolution Fund took out a loan from the Portuguese State in an amount of €3.9 billion and a loan from the institutions participating in the Resolution Fund in an amount of €700 million, both to be paid until December 2046.

On 29 December 2015, the Board of Directors of Banco de Portugal approved a number of decisions that completed the resolution measure applied to BES. Based on evidence that the economic and financial situation of Novo Banco had been negatively affected since the date of its setting-up by additional losses which were related to events predating the resolution date, Banco de Portugal decided to transfer the liability for certain non-subordinated bonds issued by the latter, and offered to institutional investors, back to BES.

The nominal amount of the bonds retransferred to BES totalled €1,941 million and corresponded to a balance-sheet amount of €1,985 million. These bonds were originally issued by BES and were specifically placed with qualified investors, with a minimum denomination of €100,000.

The original resolution decision expressly provided that Banco de Portugal, as the Resolution Authority, in use of its powers, could at any time re-transfer assets and liabilities between BES and Novo Banco. In accordance with Banco de Portugal, this measure was necessary to ensure that, as stipulated in the resolution regime, the losses of BES were absorbed by this institution's shareholders and creditors and not by the resolution fund or the taxpayers, protecting all depositors of Novo Banco, the creditors for services provided and other categories of unsecured creditors.

In addition to the measure mentioned above, Banco de 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 (i) clarification that no liabilities have been transferred to Novo Banco that were contingent or unknown on the date the resolution measure was applied to BES; (ii) retransfer to BES of the shareholding in BES Finance, which was 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 BES; (iii) clarification that it was 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.

These decisions were the final and definitive adjustment of the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, which was deemed definitively fixed. As a consequence, Banco de Portugal asked the European Central Bank to withdraw the authorisation of BES, starting the judicial liquidation proceedings.

These developments, as well as the agreement with the European Commission on the commitments to be applied to Novo Banco, removed uncertainties and made a positive contribution to the relaunch of the sale process of the Resolution Fund's participation in the share capital of Novo Banco in January 2016.

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

The sale process of Novo Banco was concluded on 18 October 2017 with an injection by the new shareholder (investment funds managed by North-American group Lone Star) of €750 million and €250 million, carried out in October and December, respectively. The conclusion of this operation brought to a close a complex negotiation process with the new shareholder, European institutions and other domestic institutions, in close cooperation with the Portuguese Government.

Since 18 October 2017 Novo Banco is held by Lone Star and the Resolution Fund, which hold 75 per cent. and 25 per cent. of the share capital, respectively. Novo Banco ceased to be a transition bank and started to operate on a normal basis, although it is still subject to certain measures imposed by the European competition authority restricting its activity.

Prior to the sale, Novo Banco undertook a Liability Management Exercise ("**LME**") on 36 bond series with a book value of circa €3 billion. The operation was successful, having achieved the purchase and redemption of bonds representing 73 per cent. of their book value.

In line with the conditions agreed in the sale process of Novo Banco, a Contingent Capital Agreement ("**CCA**") was set up, which will be managed by the Resolution Fund that retained a 25 per cent. stake in the capital of Novo Banco.

Under this agreement, Novo Banco can be compensated up to a limit of €3.89 billion for losses that may be recognised in some of its problematic assets, in case its capital ratios decrease below a predefined threshold.

On 28 March 2018, Novo Banco announced the results for the year 2017, which resulted in the activation of the contingent capitalisation mechanism provided for in the agreements entered into in connection with the sale of Novo Banco.

The amount to be paid by the Resolution Fund under the CCA in 2019 and referring to the year 2018 results from the comparison between the accumulated value of the losses on the assets that make up the CCA and the value of the insufficiency of capital of Novo Banco compared to the agreed levels. The accumulated loss amount in the assets portfolio covered by the CCA is €2,661 million in the period running from 30/06/2016 to 31/12/2018. The

Resolution Fund made a payment of about €792 million in 2018, so the total amount of losses not borne by the Fund over the life of the CCA and to date is €1,870 million. The amount required to maintain Novo Banco's capital ratios at the agreed levels is €1,149 million. Under the terms of the CCA, the Resolution Fund pays the lowest amount, so the amount to be paid in 2019 corresponds to the amount of capital required to restore the Novo Banco ratios to the agreed levels, ie €1,149 million.

The Resolution Fund payments are settled after the legal certification of Novo Banco's accounts and after a verification procedure to be carried out by an independent entity, to confirm that the amount payable by the Resolution Fund has been correctly determined. In 2019 the payment was made on 6 May.

To this end, the Resolution Fund used its own resources (resulting from contributions due, directly and indirectly, by the banking sector) and also resorted to a loan from the State, amounting to €850 million (€450 million in 2018), which corresponds to the annual maximum amount agreed between the Resolution Fund and the State in October 2017.

As of the date of this Base Prospectus the Resolution Fund has already paid to Novo Banco 50 per cent. of the CCA amount in a period corresponding to 25 per cent. of the term of the CCA.

To date, the Resolution Fund has disbursed a total of €6,841 million for financial support to the resolution measure applied to BES, of which €4,900 million corresponding to the Novo Banco's capital subscription in August 2014, €792 million and €1,149 million to the 2018 and 2019 payments under the CCA.

*The resolution measure applied to Banco Internacional do Funchal, S.A. ("**Banif**")*

In January 2013 Banif was recapitalised by the Portuguese State in the amount of €1,100 million (€700 million under the form of special shares and €400 million in hybrid instruments). The recapitalisation plan also included a capital increase by private investors in the amount of €450 million, which was concluded in June 2014. Since then, Banif reimbursed the State with €275 million of hybrid instruments, but was not able to reimburse the €125 million tranche that matured in December 2014.

The public recapitalisation had been approved by the European Commission (DG-COMP), with final approval being subject to the presentation of a Restructuring Plan for Banif. Between April 2013 and October 2014, Banif submitted to DG-COMP several versions of the Restructuring Plan. However, none of the submitted versions was approved and on 24 July 2015, DG-COMP communicated its decision to open an in-depth investigation process on the potential State aid to Banif.

In the period following the recapitalisation of Banif with public funds, Banco de Portugal, as the prudential supervisory authority (a competence that since November 2014 has been exercised by the Single Supervisory Mechanism) monitored the institution very closely.

In that period, there were several deviations from the assumptions considered in Banif's Recapitalisation Plan. In terms of positive deviations, there was a reduction in structure costs and, until the end of 2014, an improvement in the liquidity position with the diversification of funding sources and the stability of the depositors' base. However, the absence of an approved restructuring plan, worsened by a less favourable economic environment, led to significant negative deviations of Banif's results from the projected amounts. In spite of these difficulties, Banif always maintained its prudential ratios above the legal thresholds.

In the wake of the in-depth investigation procedure opened by the European Commission on the State aid received by Banif, and considering the possibility that this aid could be considered illegal and therefore its reimbursement would be required, the shareholders and members of the Board of Directors of Banif started the process for the sale of the institution.

On 19 December 2015, the Ministry of Finance informed Banco de Portugal that it had not been possible to sell Banif's assets and liabilities through a voluntary sale process, since all the proposals submitted by potential buyers implied additional State aid. This determined that the sale would have to be made in the context of a resolution.

Taking into consideration (i) the consequences of the possibility that the State aid provided to Banif could be declared illegal by the European Commission, which would create a very serious capital shortage; (ii) the position of the European bodies that the sale of Banif with recourse to State aid would only be viable in the context of a resolution; (iii) the impact of frustrated expectations related to the voluntary sale on Banif's liquidity situation and the resulting risks for the maintenance of its regular payment flows and for meeting its obligations towards the customers, the national authorities have decided to sell Banif to Banco Santander Totta for the amount of €150 million, in the framework of a resolution tool.

On 20 December 2015, Banco de Portugal applied a resolution measure to Banif which notably resulted in the acquisition by Banco Santander Totta, S.A. of a set of rights and obligations, that constituted assets, liabilities, off balance sheet items and assets under the management of Banif, in the amount of €150 million, as listed in the resolution passed by Banco de Portugal in that respect. Accordingly, the overall activity of Banif was transferred to Banco Santander Totta, except for the assets transferred to an asset management vehicle (Oitante, S.A.) set up in the context of the application by Banco de Portugal of the aforementioned resolution measure. 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 (which was financed by a loan in the same amount granted by the Portuguese State (the "**2015 Portuguese State Loan**") and €1,766 million directly by the Portuguese State, as a result of the 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 current outstanding principal amount of the 2015 Portuguese State Loan is €353 million.

According to this decision, the overall activity of Banif was transferred to Banco Santander Totta, with the exception of problematic assets which were transferred to an asset management vehicle. Banif maintained a very limited set of assets to be wound up in the future, as well as the shareholders' positions, subordinated credit and related entities. 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.

Key indicators

In 2018, the profitability of the banking system was positive for the second consecutive year.

The improvement in profitability in 2018 was justified by lower loan impairment losses and an improvement in operating income, and mitigated by a decrease in the results of financial operations. At the same time, operational efficiency continued to improve. Non-performing loans (NPLs) decreased significantly and impairment coverage ratios continued to increase. The concentration of exposures to certain asset classes, in particular to public debt securities and to the real estate sector, remained high. The liquidity position improved, continuing at comfortable levels. The total equity ratio stabilized in 2018, benefiting from the issuance of Additional Tier 1 (AT 1) and Tier 2.

Notwithstanding favourable developments in recent years, the Portuguese banking system continues to face a number of challenges, boosted by the slowdown in economic activity and the prolongation of the low interest rates environment. Firstly, the reduced volumes of new loan origination and the net interest margin in new operations make it difficult to increase net interest income. Second, the need to comply with MREL requirements may justify the need to issue debt instruments with a high degree of subordination, increasing the vulnerability of the banking system to changes in risk perception in international financial markets. Third, the convergence of asset quality indicators to international standards requires the continued reduction of the stock of non-performing loans and, in some cases, the creation of impairment and / or loss recognition in the disposal of these assets. Finally, there are still challenges related to the improvement of operational efficiency, namely the continuation of the resizing of operational cost structures and investment in technological infrastructures in the current paradigm of digitalisation of financial services.

The recent adoption of IFRS 9 should lead to faster recognition of impairment losses in the context of a slowdown in economic activity. Also in this regard, the implementation of the addendum to the ECB guidelines on the provision of new non-performing loans, as well as the introduction in EU Regulation 575/2013 of minimum provisioning levels for new non-performing loans, constitute an additional incentive for the recognition of impairment losses in credit agreements entering into the non-performing situation.

In this context, despite the current improvement in profitability, institutions should promote the adoption of prudent policies for the application of the results generated, particularly with regard to the distribution of dividends. In addition, efforts to improve efficiency by reducing operating costs should not jeopardize the adoption of adequate policies to control the risks inherent in its activity. In particular, institutions should ensure an adequate assessment and control not only of financial risks but also of operational risk, in particular as regards activities to combat money laundering and terrorist financing, as well as cyber risk.

In 2018, the profitability of the Portuguese banking system remained positive for the second consecutive year. On a yearly basis, there was a significant increase in the return on assets (ROA), which stood at 0.66 per cent. (0.31 per cent. in 2017), and return on equity (ROE), which stood at around 7 per cent. (3 per cent. in 2017).

In the first three quarters of 2018, the ROA of the Portuguese banking system was above the euro area average. The relative position of the Portuguese banking system has benefited from the contribution from net interest income, which is higher than that of the euro area average. At the same time, Portuguese banks had a lower level of leverage and ROE in line with the euro area average. The improvement in profitability was mainly due to the significant reduction in the provision and impairment component which, however, remained above the average value of the euro area and, to a lesser extent, the convergence observed at the level of operating costs. It should be noted, however, that the still high non-performing loan stock of some Portuguese banks suggests that the recognition of impairment losses should continue in the near future despite the sharp reduction observed in recent years. The ROA of the Portuguese banking system in 2018 was 0.66 per cent., lower than in the first three quarters of 2018, which could affect the relative position of Portugal in the year as a whole.

In 2018, the cost of credit risk declined by 0.6 per cent. to stand at 0.4 per cent., lower than in 2008. The reduction in the cost of risk was mainly due to the decrease in loans impairment charges and, to a lesser extent, the reduction of non-financial assets impairments. Although widespread, the reduction in the cost of credit risk was more pronounced in institutions for which this indicator was higher in 2017. In addition, some institutions already have a negative cost of credit risk, due to net loan impairments reversals.

The reduction of the gross NPL ratio in 2018 was 3.8 per cent. to 9.4 per cent. at the end of the year, the lowest since the definition of the European Banking Authority's NPL was introduced in the reporting models of information to supervisory authorities. This development was due to the sharp decline in the stock of non-performing loans and, to a lesser extent, the increase in lending. In 2018, the decrease in non-performing loans was 30 per cent., mainly due to sales of these assets. Sales of non-performing loans were estimated to have contributed 1.7 per cent. to the decline in the ratio while reductions in assets and net cures contributed in both cases by 1.0 per cent.

Over the last few years, the Portuguese banking system has significantly reduced the NPL portfolio. Since the record high, observed in June 2016, the total stock of non-performing loans decreased 49 per cent. (Non-financial corporations (NFC): 49 per cent.; individuals: 46 per cent.), corresponding to a reduction of €24.6 billion (NFC: -€16,1 billion; individuals: -€5.9 billion). This dynamic, coupled with an increase in lending performance over the past two years, has resulted in a decrease of 8.5 per cent. in the NPL ratio (NFC: -11.9 per cent.; individuals: -4.1 per cent.), to 9.4 per cent. This decrease in the ratio resulted, essentially, from the write-down of assets and sales of non-performing loans.

The Portuguese banking system is characterized by high exposure to certain asset classes, in particular public debt securities, real estate and intra-sectoral exposures in the financial system.

In 2018, the increase in the value of the public debt securities portfolio was the main driver to the 0.9 per cent. growth in total banking system assets. The other items contributed negatively for the evolution of assets. The exposure to Portuguese public debt stood at around 9 per cent. of total assets, constituting an important channel of transmission of sovereign risk to the banking system. Since 2011, the Portuguese banking system has also increased its exposure to public debt securities of other euro area countries, namely Spain and Italy. At the same time, the average residual maturity of public debt securities held by banks has been increasing. Despite the slight reduction observed since 2016, Portuguese banks continue to concentrate a significant part of their exposures in the real estate market, accounting for approximately 38 per cent. of total assets in 2018, of which 27 per cent. relate to housing loans.

According to the results of the Bank Lending Survey (BLS), the criteria for granting and the terms and conditions of the new loans to NFC remained, in general, unchanged during the year 2018 and the first quarter of 2019. In domestic activity, the gross inflow of new bank loans to NFC increased in 2018, following the sharp fall recorded between 2013 and 2017. This decrease was greatly influenced by the significant increase in the average term of the new lending operations during that period. In recent years, the underwriting criteria has been focused on companies showing a lower risk of default, to the detriment of the riskier companies. Indeed, the average probability of default associated with new bank loans to SNF has declined significantly since 2013, to which the positive economic cycle has also contributed. On a consolidated basis, the performing loans granted to NFC by resident banks showed an increase by 4.7 per cent. Despite this increase, the portfolio of loans to NFC continued to decrease due to the reduction of non-performing loans. The evolution by activity sector continued to present some heterogeneity. On the one hand, loans granted to NFC from the Industry and Commerce sectors recorded positive rates of change since 2015. On the other hand, the evolution of loans granted to companies in the construction and real estate sectors is associated with the dynamism of the real estate market. However, in the case of construction-only companies, bank lending continued to decline.

During the first half of 2018, the underwriting criteria and the contractual terms and conditions in lending to individuals remained stable. In the third quarter of 2018, according to the October BLS results, most institutions reported more restrictive credit approval criteria for individuals, both in housing and consumer segments. This greater restrictiveness had already been foreseen by the banks in the survey conducted in July 2018 and was associated by the reporting banks with compliance with the Recommendation of Banco de Portugal applied to the new consumer loan agreements, which entered into force on 1 July 2018. As regards the terms and conditions of the mortgage loan agreements, the institutions indicated a greater restrictiveness with regard to the required collateral, the LTV ratio and other limits on the loan amount and maturity. Housing loans origination have slowed down, particularly in the second half of 2018 and in the first months of 2019. In the first quarter of 2019, housing loans origination increased by 7.5 per cent. year-on-year, remaining at a much lower level than before the financial crisis. The gap between the interest rate on new residential lending operations and individuals deposits is slightly above the 2008 level, albeit on a declining trend. New consumer lending operations slowed down in the second half of 2018 and in the first quarter of 2019. This evolution reflected the deceleration of the main segments of consumer credit (personal loans and auto loans). The interest rate on new loans is at historically low levels, albeit in a context of low inflation compared with the period prior to the financial crisis. However, the spread between the interest rate on new consumer lending operations and individuals deposits is above the level of 2008 and stabilized in 2018. Regarding the activity on a consolidated basis of the banking system, there is an increase in the performing component of gross lending to households by 1.5 per cent. However, the individuals' loan portfolio continues to decline due to the fall in non-performing loans.

In 2018, the Portuguese banking system liquidity coverage ratio (LCR) increased by 23 pp compared to the end of 2017, to 196.4 per cent., considerably above the regulatory minimum of 100 per cent. and exceeding the euro area median.

In 2018, the Total Capital ratio remained stable, standing at 15.1 per cent. This evolution resulted from a reduction in total own funds of a magnitude similar to the decrease in risk-weighted assets. The reduction in total own funds reflects a decline in Common Equity Tier 1 capital (CET 1), mitigated by the increase in Tier 1 additional own funds (AT1) and Tier 2 capital.

The Common Equity Tier 1 capital ratio (CET 1 ratio) decreased by 0.7 pp to 13.2 per cent. at the end of 2018. This evolution reflected, in part, a number of relevant extraordinary events, of which the change in the parent company of the group to which Novo Banco belongs for the purposes of prudential supervision. In the period from January to September 2018, this ratio was narrowed to the euro area median, which also declined, the same being true for the total capital ratio.

Banking regulation in Portugal

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

The Portuguese financial industry has been reacting to a steady stream of changes in the regulatory and legal framework since the early 1980s. Portugal implemented legislation bringing Portuguese banking regulations in line with EU legislative practice. In particular, the RGICSF made a noticeable impact on the Portuguese financial sector by introducing a comprehensive regulatory framework in Portugal in line with EU Directives, abolishing the distinction between investment and commercial banks, establishing prudential and supervisory rules, revising the regulation of foreign banks operating in Portugal and Portuguese banks operating abroad and creating a deposit guarantee fund in order to protect depositors.

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

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

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

The leverage ratio is 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.

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

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

The FAP set targets for deleveraging and increasing capital and liquidity in the financial system in general, and the banking sector in particular. In order to achieve these targets, the eight largest banking groups were required by Banco de Portugal, to draw up a Funding & Capital Plan ("**FCP**") and to update it regularly. Regarding the system's liquidity, Banco de 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, Banco de 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.

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

In 2013, the European authorities approved a new legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement into the EU legal framework, replacing the former Capital Requirements Directives (2006/48/EC and 2006/49/EC): (i) Regulation 575/2013 of the European Parliament and of the Council, of 26 June, establishing new and detailed prudential requirements that institutions need to comply with (the Capital Requirements Regulation or "**CRR**") and (ii) 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 but the full application of the new Basel III regulations is being gradually introduced, with this process usually being referred to as "phasing-in". The full assumption of the new regulations, without considering transitional plans, is referred to as "full implementation". The "phasing-in" process is currently in force, and it is on this basis that Banco de Portugal defines and requires the regulatory minimum ratios to be complied with.

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

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

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

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

The LCR addresses the sufficiency of high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. The LCR was introduced gradually starting from October 2015 with a minimum level of 60 per cent. and was fully implemented in January 2018 comprising the minimum required ratio of 100 per cent., one year earlier than the Basel Committee had recommended. As at 31 March 2019, the Issuer's LCR stood at 179.8 per cent. (160.5 per cent. as at 31 December 2018), above the 100 per cent. minimum regulatory requirement in force since 1 January 2018.

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

Banks' strategies had to change with respect to liquidity compliance and a more sustainable balance sheet. In order to meet the requirements, some adjustments have been made or are in progress; liquidity regulation ensures banks maintain a certain level of highly liquid assets, which may imply lower profitability. At the same time, financing costs may increase since long-term financing is favoured in relation to short-term financing.

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

This proposal amended the following pieces of legislation:

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

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

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

On 25 May 2018, the Council of the EU agreed to such proposal and asked the presidency to start negotiations with the European Parliament. The European Parliament confirmed its position on the proposal at its June 2018 plenary. The European Parliament and Council of the EU reached agreement on the main elements of the EU Banking Reforms in late 2018, which were endorsed by the Committee of Permanent Representatives (''**COREPER**'') on 30 November 2018 and approved by the Economic and Financial Affairs Council on 4 December 2018. In February 2019, COREPER endorsed the positions agreed with the European Parliament on all elements of the EU Banking Reforms. The agreed text was adopted by the European Parliament on 16 April 2019. COREPER approved the EU Banking Reforms on 7 May 2019 and the Council of the EU formally approved the EU Banking Reforms on 14 May 2019.

The CRD-V package amendments contain three groups of provisions, covering capital and liquidity requirements, aspects of proportionality, and the EU's resolution framework.

The European Parliament, the Council and the EC agreed in October 2017 on some elements of the review of the CRD-V package, namely creation of a new category of unsecured debt in bank creditors' insolvency ranking, on the implementation of the IFRS 9 and on rules limiting large exposures to a single counterparty. On 1 January 2018, Regulation (EU) 2017/2395 of the European Parliament and of the Council, of 12 December 2017, entered into force, amending the CRR as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

On 7 June 2019 in the Official Journal of the EU, the following were published:

- Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC ("**BRRD II**"); and
- Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms ("**SRMR II**");

both BRRD II and SRMR II entered into force on 27 June 2019. BRRD II shall be implemented on or before 28 December 2020 and SRMR II shall apply from 28 December 2020.

Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending the Capital Requirements Regulation as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements ("**CRR II**"); and

Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending the Capital Requirements Directive IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures ("**CRD V**").

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

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

- A capital conservation buffer 2.5 per cent. of risk-weighted assets, comprised of CET1 Capital;
- A countercyclical capital buffer between 0 and 2.5 per cent. of risk-weighted assets, comprised of CET1 Capital, pursuant to the conditions to be established by the competent authorities;
- A macro prudential systemic risk buffer of up to 5 per cent. of risk-weighted assets, depending on the economic outlook, to address systemic risks of a long-term, non-cyclical nature that are not covered by the CRR; and
- A systemic institutions risk buffer: i) applicable to the institutions with a global systemic importance: between 1 and 3.5 per cent. of risk-weighted assets; and ii) applicable to other institutions with a systemic

importance ("**O-SII**"): between 0 and 2 per cent. of risk-weighted assets. These buffers shall consist of CET1 Capital.

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

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

Banco de Portugal has also decided to set the counter-cyclical buffer rate at 0 per cent. of the total risk-weighted assets. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of Banco de Portugal or the ECB, as applicable. Banco de Portugal will review this decision on a quarterly basis. At its most recent revision, on 29 March 2019, Banco de Portugal determined a countercyclical capital buffer rate of 0 per cent.

On 29 July 2016, and as subsequently confirmed on 30 November 2016, Banco de Portugal, after having duly notified the ECB and after having consulted the National Council of Financial Supervisors, decided to apply a two-year phase-in regime of the O-SII buffer published on 29 December 2015 to the identified Portuguese O-SIIs. The timeline for the phase-in of the O-SII buffer was 50 per cent. as at 1 January 2018 and 100 per cent. as at 1 January 2019. The application of a two-year phase-in regime of the O-SII buffer had the main purpose of ensuring a level playing field in terms of the decisions on the O-SII buffer between Portuguese institutions and their European peers operating in similar macroeconomic environments.

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

The most important challenges were:

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

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

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

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

As set out in the legal and regulatory provisions, Banco de Portugal published the table with the names of the banking groups identified as O-SIIs in 2018 and the respective capital buffers as a percentage of the total risk exposure amount. The Issuer has been classified as an O-SII and the buffers shall consist of CET1 on a consolidated basis and shall be met as follows: 25 per cent. on 1 January 2018, 50 per cent. on 1 January 2019, 75 per cent. on 1 January 2020 and 100 per cent. on 1 January 2021. The O-SII buffer identified for the Issuer is 0.0625 per cent. as at 1 January 2018, 0.125 per cent. as at 1 January 2019, 0.1875 per cent. as at 1 January 2020 and 0.250 per cent. as at 1 January 2021. These buffers will be revised annually or if a significant restructuring process occurs, such as a merger or acquisition. The date for next revision is tentatively scheduled for 29 November 2019.

Banco de Portugal takes pre-emptive regulatory and supervisory measures in order to prevent risks and maintain the good solvency of the Portuguese banks. On an annual basis, Banco de Portugal assesses whether there is a need to require institutions to hold own funds in excess of the legally established minimum requirements and to comply with specific liquidity requirements and other measures it lays down. This assessment is done under the Supervisory Review and Evaluation Process ("**SREP**"), which comprises a set of procedures carried out by the supervisory authorities to ensure each credit institution has in place the strategies, processes, capital and liquidity that are appropriate to the risks to which it is or might be exposed to. This process implements Basel Pillar 2 in European and national legislation.

The SREP also assesses the risk each institution poses to the financial system. This process therefore makes it possible to determine capital and liquidity requirements and other supervisory measures to address the specific weaknesses of each institution. This methodology provides for a holistic and forward-looking assessment of the viability of the supervised institution. The SREP is conducted in a proportional manner, both to significant institutions and less significant institutions ("**LSIs**"). The frequency and intensity of the SREP assessment takes into account the potential impact each institution may have on the financial system and its specific risk profile.

The deepening of supervision by Banco de Portugal, following the financial and economic crisis, has resulted in a broadening of the areas covered as well as in a greater frequency of prudential reporting obligations.

As at the date of this Base Prospectus, Banco Montepio's minimum capital ratio requirements under Pillar 1, on a consolidated basis, are: 4.5 per cent. for CET1, 6.0 per cent. for Tier 1 and 8.0 per cent. for Total Capital. Under the SREP, Banco de Portugal determined for Banco Montepio an additional 3 per cent. Pillar 2 requirement to be met from 1 July 2018 onwards, on a consolidated basis. Including the applicable buffers, as of 31 March 2019 Banco Montepio was required to comply with the capital ratio requirements (on a consolidated and phasing-in basis) of 10.1 per cent. for CET1, 11.6 per cent. for Tier 1 and 13.6 per cent. for Total Capital. From 1 January 2021 onwards and considering the full implementation of CRDIV/CRR the Issuer will be required to comply with the capital ratios of 10.25 per cent. for CET1, 11.75 per cent. for Tier 1 and 13.75 per cent. for Total Capital.

As of 31 March 2019, the Total Capital ratio of the Issuer, on a consolidated and phasing-in basis stood at 15.0 per cent. (14.1 per cent. as at 31 December 2018) and the CET1 ratio was 13.5 per cent. (13.5 per cent. as at 31 December 2018). Considering the full implementation of CRD IV/CRR, as of 31 March 2019, the Total Capital ratio stood at 13.1 per cent. (12.0 per cent. as at 31 December 2018) and CET1 was 11.6 per cent. (11.4 per cent. as at 31 December 2018).

The international financial reporting standard (IFRS 9) entered into force on 1 January 2018, introducing significant changes in the classification of financial assets and in the recording of impairment. IFRS 9 is divided into three pillars: Classification and measurement; Impairment and Hedge accounting. It is in the Impairment pillar that the most relevant impacts are observed given that IFRS 9 establishes a new asset impairment model based on expected credit losses (ECL), which considers the expected losses throughout the life of financial instruments, replacing the IAS 39 "incurred loss" model.

Macroeconomic factors are considered when determining the ECL, whose changes have impact in expected losses. Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

(i) Stage 1: financial assets with no significant increase in credit risk since its initial recognition and which are not in default; impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

(ii) Stage 2: financial assets with a significant increase in credit risk since its initial recognition, however without any clear evidence of impairment; impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

(iii) Stage 3: financial assets in default with a clear evidence of impairment losses as a consequence of events that resulted in losses; impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

The expected credit losses (ECL) for homogeneous populations is given by the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), discounted at the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon:

(i) 12-month PD: the probability of a default occurring within the next 12 months (for contracts included in stage 1);

(ii) Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (include in stage 2). In such case, lifetime parameters are used and forward looking information is considered;

(iii) PD=100 per cent. to all stage 3 contracts.

In the group of individually significant customers, the exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the recovery expectations, taking into consideration the existing collateral as well as other relevant factors to assess the debtor credit quality.

With the adoption of IFRS 9 and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, Banco Montepio recognised prudently 5 per cent. of the impact related to the IFRS 9 adoption and in 2019 15 per cent. of such impact.

In order to further integrate the European banking system and to promote financial stability in the Eurozone, an agreement was reached by the European Council to create the European Banking Union (the "**EBU**"). This new union provides for a new supervisory landscape and the deepening of the Economic and Monetary Union. It was agreed to establish three main building blocks of the EBU: a Single Supervisory Mechanism (the "**SSM**"), a Single Resolution Mechanism (the "**SRM**"), and a Single Deposit Guarantee System.

Since November 2014 and in accordance with the SSM, the ECB is the central prudential supervisor of financial institutions in the euro area as a direct supervisor to the largest banks. National supervisors continue to monitor the remaining banks. The SRM was established in a bid to ensure taxpayer costs and damages to the real economy following bank failures are kept to a minimum. The SRM will apply to banks covered by the SSM and will allow bank resolutions to be managed effectively through a Single Resolution Fund and a Single Resolution Board.

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

The requirements of the SRM are set out in the SRM Regulation and the BRRD. The SRM Regulation, subject to some exceptions, applied from 1 January 2016. The SRB has been fully operational since from January 2016. The

BRRD has been implemented in Portugal pursuant to the European Union (Bank Recovery and Resolution) Regulations 2015 (the "**BRRD Regulations**").

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

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

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.

Banks subject to the BRRD may be required to contribute to ex ante funds and in particular to the European Resolution Fund. The periodic contributions of the participating institutions in the European Resolution Fund should be (i) distributed proportionally among participating institutions, according to the respective level of financial liabilities, excluding own funds and deducting deposits guaranteed by the Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) (the "**Reserve Base**"), adjusted according to the institution's risk profile and considering the economic outlook as well as the contribution's impact on the institution; and (ii) determined by the application of a contributory rate (proposed by the European Resolution Fund and established by Banco de Portugal) to the Reserve Base. The Fund will be built up during its first eight years (2016-2023) and shall reach at least 1 per cent. of deposits guaranteed by the Deposit Guarantee Fund (approx. €55 billion in 2024). Where *ex ante* contributions are insufficient to cover the losses or costs incurred by use of the Fund, additional *ex post* contributions should be collected.

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

Credit institutions are required to produce suitable recovery plans to resolve problems of liquidity, solvency, or overall exposure to risk, and to keep such plans up-to-date. To complement the resolution plans, Banco de 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, Banco de Portugal has been given powers to prohibit the distribution of dividends to shareholders, to replace managers or directors, and to require credit institutions to transfer assets that constitute an excessive or undesirable risk to the soundness of the institution. These actions may have a direct effect on shareholders and the Issuer's expected returns and additional indirect impacts through changes to such institutions' business activities.

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

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

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

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

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

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

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

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

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

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

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

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

In the year 2018, as a result of the transitional regime established in Law no. 23-A/2015, of 26 of March, continued in force, in parallel, two contribution schemes for the Resolution Fund, in addition to the contribution scheme for the banking sector. On the one hand, the regime in force until the entry into force of said Law no. 23-A/2015 of March 26, has been temporarily maintained, whose contributions are intended to ensure compliance with obligations previously assumed by the Resolution Fund (applying, in this case, with the necessary adaptations, the regime established in Decree-Law no. 24/2013 of February 19). On the other hand it is in force the system of contributions created by the transposition of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and settlement of credit institutions and investment firms (BRRD), which is based on harmonized rules within the European Union and has been transposed in its principles and general rules by Law no. 23-A /2015 of March 26 (applying in this matter the Commission

Delegated Regulation (EU) 2015/63 of 21 October 2014 - Delegated Regulation). The contributions collected under the combined terms of this scheme and Regulation (EU) no. 806/2014 of the European Parliament and of the Council of 15 July 2014 (SRM Regulation) to institutions covered by the Single Resolution Mechanism (SRM) are transferred to the Single Resolution Fund (SRF) on the basis of the Agreement on Transfer and Mutual Contributions to the SRF (Intergovernmental Agreement), signed in Brussels on 21 May 2014 and approved by Assembly Resolution no. 129/2015 of July 22.

In addition to the contributions collected under the regime established by Decree-Law no. 24/2013 of February 19, and the contributions created under the BRRD transposition, charged on the basis of the Delegated Regulation, there is an additional source of revenue of the Resolution Fund which is the contribution income on the banking sector. Up to December 31, 2018, and since the establishment of the Resolution Fund, the aggregate amount of contributions received by the Resolution Fund from the banking sector amounts to €1,295 million.

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

In 2018 and in accordance with Decree-Law no. 24/2013, the base rate of contribution was 0.0459 per cent., which represented an increase of 1.68 basis points over the previous year. Considering that, according to the calculation methodology, the effective rate to be applied to each institution results from the application of an adjustment factor to that base rate of contribution, and that this adjustment factor, calculated in accordance with the risk profile of each participant institution measured by its common equity tier 1 ratio, is subject to a minimum limit of 0.8 and a maximum of 2.07, the effective contribution rate for the Resolution Fund in the year 2018 ranged from 0.0367 per cent. and 0.0588 per cent. In 2018, the total contribution amount totalled €60.5 million, which represented an increase of €12 million over the previous year, of which circa 4.5 per cent. were contributions from the Issuer.

In what regards the contribution on the banking sector and in accordance with the available data, the value received by the State amounted to €186 million (o.w. circa 6.0 per cent. paid by the Issuer), of which, however, only €182 million was transferred to the Resolution Fund.

The periodic contribution created within the scope of BRRD transposition amounted to €132 million (o.w. circa 6.1 per cent. paid by the Issuer), including contributions collected under the combined terms of the scheme transposing BRRD and the SRM Regulation to the institutions covered by the SRM, which was therefore almost entirely transferred to the SRF under Intergovernmental Agreement.

The Issuer’s *pro rata* share in the Resolution Fund will vary, and may increase, from time to time according to the Issuer’s liabilities and own funds. Contribution to the Resolution Fund is adjusted to the risk profile and the systemic relevance of each participating institution considering its solvency situation. Also, banks (including the Issuer) may be required to contribute to the deposit guarantee systems in amounts that are higher than the current contributions. The participation of the Issuer in the €700 million initial loan corresponded to 10 per cent.

According to Article 5, paragraph e of the Regulation of the Resolution Fund, approved by the Ministerial Order (*Portaria*) No. 420/2012, of 21 December, the Resolution Fund may submit to the Government a proposal for the implementation of special contributions to rebalance the financial condition of the Resolution Fund.

If the payment of those special contributions compromises the Issuer's liquidity or its solvency, Banco de Portugal can suspend them for a period of up to 180 days, extendable at the request of the Issuer. The Resolution Fund also publicly indicated that the financing will be structured in such a manner as to not only avoid jeopardising the solvency of any credit institution but also to preserve financial stability.

Under Article 153-O of the RGICSF, the Resolution Fund may be required to finance the implementation of the resolution measures applied by Banco de Portugal and the resulting general and administrative expenses. At the present date, there is no reliable estimate of the potential losses to be incurred by the Resolution Fund.

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

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

Hence, if the Issuer is subject to a resolution measure, Banco de Portugal may:

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

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

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

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

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

In accordance with Article 145-Y of the RGICSF, financial institutions will be required to meet a MREL requirement. The actual size of the Issuer´s MREL has not yet been set. Banco Montepio expects that Banco de Portugal will decide and notify it, during 2019, of what its MREL should be, as well as the timing for its implementation. The expectation is that Banco Montepio will be granted a period of several years (to be confirmed by Banco de Portugal once its MREL requirement is known) to comply with its MREL requirement. In order to meet MREL requirements, the Issuer may need to issue MREL-eligible instruments, affecting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain the Issuer's strategy, could increase the average cost of the Issuer's liabilities, in particular, without limitation, the cost of additional Tier 1 and Tier 2 instruments and thus negatively affect the Issuer's earnings. Tier 1 instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, if they include convertibility features.

The Issuer will have to meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or that are imposed on it under other applicable compensation schemes relating to banks or other financial institutions in financial difficulties, which will vary, and may increase, from time to time. In addition, the challenge of meeting this degree of regulatory change will place a strain on the Issuer’s resources. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands increases the regulatory risk of the Issuer.

International Accounting Standards Board (“**IASB**”) issued on 28 May 2014 the standard IFRS 15 - Revenue from Contracts with Costumers. IFRS 15 was adopted by Regulation of the European Commission no. 1905/2016, of 22 September 2016 with mandatory application for periods beginning on or after 1 January 2018. This standard revokes IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services. IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognise revenue under IFRS 15, an entity applies the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract, being performance obligations promises in a contract to transfer to a customer goods or services that are distinct; (ii) determine the transaction price, being the transaction price the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer (if the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer); (iv) allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and (v) recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. The model specifies that the revenue should be recognised: (i) at a time when the control of the goods or services is transferred to the customer; or (ii) over the period, to the extent that represents the performance of the entity. None of these amendments had an impact on Banco Montepio’s financial statements.

On 8 December 2016 it was issued IFRIC 22 with mandatory application for annual periods beginning on or after 1 January 2018. IFRIC 22 clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It defines that when there were advances in foreign currency for the purpose of asset acquisition, expense support or income generation, when applying paragraphs 21 to 22 of IAS 21, the transaction date considered for the purpose of determining the exchange rate to be used in the recognition of the asset, expense or income (or part thereof) is the date on which the entity initially recognizes the non-monetary asset or liability resulting from the payment or receipt of the advance in foreign currency (or there being multiple advances, the rates in force on each advance). None of these amendments had an impact on Banco Montepio's financial statements.

On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, IASB published the amendments to IFRS 2. IFRS 2 specifies the financial reporting by an entity when it undertakes a share-based payment transaction, including issue of share options. It requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the entity. It requires an entity to reflect in its reported profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. None of these amendments had an impact on Banco Montepio's financial statements.

On 8 December 2016 the IASB issued amendments to IAS 40 - Transfers of Investment Property. These amendments clarify the requirements on transfers to, or from, investment property and are effective from annual periods beginning on or after 1 January 2018, with earlier application permitted. None of these amendments had an impact on Banco Montepio's financial statements.

The annual improvements of the 2014-2016 cycle issued by the IASB on December 8, 2016 introduce changes, effective for periods beginning on or after July 1, 2018, to IFRS 1 (elimination of the short-term exception for the first time) and IAS 28 (measurement of an associate or joint venture at fair value). None of these amendments had an impact on Banco Montepio's financial statements.

The Banco Montepio Group is required to apply IFRS 16 - Leases, issued by the IASB on January 13, 2016, for periods beginning on or after January 1, 2019. The Banco Montepio Group evaluated the estimated impact that the initial application of IFRS 16 will have on its Financial Statements but the impacts arising from the adoption of IFRS 16 as of January 1, 2019 may change because: (i) the Banco Montepio Group has not yet finalized the set of tests and evaluation of controls on the new IT systems; and (ii) the new accounting policies are subject to change until Banco Montepio Group submits its first financial statements including the date of initial application.

IFRS 16 introduces a single accounting model for the classification of leases from the lessee's perspective. A lessee recognizes an asset on right of use, which represents the right to use the underlying asset, and a lease liability that represents the obligation to make lease payments. There are exceptions in recognition for short-term leases and low value leases. The accounting policy in the viewpoint of the lessor remains similar to that envisaged in the current standard - that is, lessors continue to classify leases as financial or operating. Banco Montepio Group is required to apply IFRS 16 for periods beginning on or after 1 January 2019 and the main challenges for the adoption of IFRS 16 are the identification of the lease contracts population, namely the leasing components existing in service contracts, the definition of the lease term of each contract and the determination of the discount rate to be used to project the payment amounts of the lease contracts up to the respective expiry date of the lease.

IFRS 16 revokes the current guidance on leases, including IAS 17 - Leases, IFRIC 4 - Determine whether an Agreement contains a Lease, SIC 15 - Operational Leases - Incentives and SIC 27 - Evaluation of Transactions Substance that Involve the Legal Form of a Rental.

As of the date of this Base Prospectus Banco Montepio Group has not yet finalized the set of tests and evaluation of controls on the new IT systems and the new accounting policies are subject to changes until Banco Montepio Group presents its first financial statements including the date of initial application. With the adoption of IFRS 16, the operating income of Banco Montepio Group will increase, but in return, the net interest income will decrease. This situation results from the fact that IFRS 16 replaces linear expenses of operating leases by depreciation of assets under rights of use and interest charges related to the lease liabilities. Based on the guidelines of the Basel Committee, for the calculation of regulatory capital, the assets under right of use will be subject to a 100 per cent.

risk weight in cases where the underlying asset is a tangible asset and deducted from regulatory capital in cases where the underlying assets are intangible assets. Accordingly, on 31 December 2018, the adoption of IFRS 16 would result in a decrease in the regulatory capital ratio of approximately 0.04 per cent.

An interpretation was issued on June 7, 2017 on how to deal with accounting uncertainties about the tax treatment of income taxes (IFRIC 23), especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to resort to the understanding in question which led to such payment. The interpretation has determined that the payment can be considered a tax asset, if it is related to income taxes, under IAS 12 applying the criterion of probability defined by the standard as to the favourable outcome in favour of the entity on the matter concerned. In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method. IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, of 23 October, and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. Banco Montepio Group does not expect significant changes in the adoption of this interpretation.

The improvements of the 2015-2017 cycle, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasurement of the interest previously held as joint venture when it obtains control over the business), IFRS 11 (not remeasuring the holding previously held in the joint venture when it obtains joint control of the business), IAS 12 (accounting for all income tax consequences of dividend payments consistently), IAS 23 (treatment as general loans any loan originally made to develop an asset when it is ready for its intended use or sale).

Other Amendments issued by IASB that are expected to be applied on or after 1 January 2019:

- Long-term interests in Associates and Joint Ventures (Amendment to IAS 28, issued on 12 October 2017), clarifying the interaction with impairment model defied by IFRS 9;

- Amendments, curtailment or settlement of the Plan (Amendments to IAS 19, issued on 7 February 2018), where it is clarified that in accounting for amendments, curtailment or settlement of a defined benefit plan a company must use actuarial assumptions updated to determine the costs of services and the net interest rate for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);

- Changes to the definition of business (amendments to IFRS 3 Business Combinations, issued on 22 October 2018);

- Changes to the definition of materiality (amendments to IAS 1 and IAS 8, issued on 31 October 2018).

Banco Montepio Group expects no impact from the adoption of the above mentioned amendments on its financial statements.

Regarding NPL related initiatives, in March 2018, the Commission presented a package of measures aimed at reducing NPLs. The measures include a proposed regulation amending CRR and introducing common minimum coverage levels for newly originated loans that become non-performing, and a proposed directive on credit servicers, credit purchasers and the recovery of collateral, which provides for an out-of-court recovery mechanism for NPLs and aims to encourage the development of secondary markets in NPLs. Amendments to CRR to apply the day after publication in the OJ. New rules under directive on credit servicers to apply from 1 Jan 2021 or (for credit servicer authorisation and supervision) 1 July 2021.

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

Banco de Portugal conducts the preventive supervision of money laundering and terrorist financing (ML/TF) of credit institutions, financial companies, payment institutions, electronic money institutions, branches established in Portugal and entities providing postal services as well as financial services. Supervised institutions are required to comply with several duties such as, (i) customer identification and due diligence, (ii) duty to keep documents and records on customers and operations, (iii) scrutiny and reporting of suspicious operations and (iv) adoption and implementation of internal control systems that are adequate to the ML/TF risk intrinsic to each institution. Banco de Portugal has regulatory functions and actively participates in the preparation of the legal framework governing ML/TF. In this regard, note should be made of Banco de Portugal Notice 2/2018 which regulates Law 83/2017 of 18 August, in particular the reinforcement of preventive duties established therein.

Money laundering is the process through which the authors of criminal activities conceal the true source of the property and revenue (benefits) obtained by illicit means, transforming the liquidity from such activities into legally reusable money, by disguising the origin and true owner of the funds. According to Portuguese law, money laundering is a crime (Article 368-A of the Portuguese Penal Code).

In articulation with the legal framework for the prevention of money laundering, legislative measures were adopted to make it easier to detect, prevent and suppress terrorist financing, reducing the possibility of access to the international financial system by the persons who commit terrorist acts, terrorist organisations and groups, and their sponsors. These measures include, inter alia, the freezing and seizure of the assets belonging to terrorists and those supporting and sponsoring terrorist organisations and groups, the duty to report transactions suspicious of having any type of connection with terrorist activities, the strengthening of the duties to prevent money laundering (in particular, the identification duty) within the scope of operations involving the transfer of funds and criminalising terrorist financing. In accordance with Portuguese law, terrorist financing is considered a criminal offence, by virtue of the provisions laid down in Article 5-A of Law no. 52/2003 of 22 August 2003 (as amended).

In December 2016, the Commission adopted a package of legislative proposals to fight financing of terrorism, including a proposed Regulation on the mutual recognition of freezing and confiscation orders. The new Regulation was published in the Official Journal on 28 November 2018 and aims to improve co-operation between European authorities to ensure they can freeze and confiscate assets quickly and efficiently across the EU. The new Regulation widens the scope of current rules and includes provisions to ensure that victims' rights to compensation and restitution are respected. Most provisions will apply from 19 December 2020 (24 months after entry into force).

The fifth Money Laundering Directive ("**MLD5**") was published in the Official Journal in June 2018. It includes targeted amendments to increase transparency around owners of companies and trusts through the establishment of public beneficial ownership registers, prevent risks associated with the use of virtual currencies for terrorist financing, restrict the anonymous use of pre-paid cards, improve the safeguards for financial transactions to and from high-risk third countries and enhance Financial Intelligence Units' access to information. National transposition is expected by 10 January 2020.

In September 2017 the European Banking Authority (EBA) published its revised Guidelines on Internal Governance. These Guidelines aim at further harmonising institutions' internal governance arrangements, processes and mechanisms across the EU, in line with the new requirements in this area introduced in the Capital Requirements Directive (CRD IV) and also taking into account the proportionality principle. Effective internal governance is fundamental if individual institutions and the banking system as a whole are to operate well.

In 2015 the EU adopted a new directive on payment services (PSD 2) to improve the existing rules and take new digital payment services into account. The directive became applicable in January 2018. It includes provisions to (i) make it easier and safer to use internet payment services; (ii) better protect consumers against fraud, abuse, and payment problems; (iii) promote innovative mobile and internet payment services; (iv) strengthen consumer rights; (v) strengthen the role of the European Banking Authority (EBA) to coordinate supervisory authorities and draft technical standards. The directive is part of a legislative package that also includes a regulation on multilateral interchange fees. Together, the regulation and the second payment services directive (i) limit the fees for transactions based on consumer debit and credit cards and (ii) ban retailers from imposing surcharges on customers for the use of these types of cards.

The General Data Protection Regulation (GDPR), agreed upon by the European Parliament and Council in April 2016, replaced the Data Protection Directive 95/46/EC in 2018 as the primary law regulating how companies protect EU citizens' personal data. The mutually agreed GDPR came into force on May 25, 2018, and was designed to modernise laws that protect the personal information of individuals. GDPR altered how businesses and public sector organisations can handle the information of their customers. The execution of GDPR in Portugal was executed through Law no. 58/2019 of 8 August.

The Law no. 23/2019 of 13 March 2019 transposed to the Portuguese law the Directive (EU) 2017/2399 of the European Parliament and of the Counsel, of 12 December 2017, as regards the ranking of certain debt instruments in the insolvency hierarchy. This law grants a full depositor preference in bank insolvency and resolution proceedings against senior debt and introduced a new class of debt, the Senior Non-Preferred Debt, that will rank below preferential Senior debt, but above Subordinated Debt.

Banco Montepio's activities are regulated by Banco de Portugal, as a credit institution, and by the CMVM, as an issuer with outstanding listed notes. It must comply with the regulations issued by Banco de Portugal, the RGICSF and with the Portuguese Securities Code *(Código dos Valores Mobiliários)*. In its activity as distributor of insurance products it is also subject to the supervision of the Autoridade de Seguros e Fundos de Pensões.

Banco de Portugal enjoys extensive supervisory and regulatory powers in relation to all credit and deposit-taking institutions in Portugal. Banco Montepio in particular, classified as a LSI, under the current SSM arrangement, is directly supervised by Banco de Portugal.

There are specific regulations regarding regular audits by Banco de Portugal, a specified accounting plan, limits on large exposures, minimum levels of provisions for loan losses and mandatory contribution to the deposit guarantee fund. Compliance is monitored through periodic inspections and regular reviews of financial statements.

Since September 2009, there was an increase in Banco de Portugal's liquidity reporting requirements, with credit institutions being required to carry out monthly reports on their actual and estimated liquidity indicators and sources of funding for the next 12 months, on both an individual and consolidated basis.

Since 2011, Banco Montepio has participated in all exercises conducted by the European Banking Authority to evaluate the impacts of Basel III rules' implementation. At the same time, Banco Montepio has been performing quarterly stress tests exercises taking into account adverse macroeconomic and financial scenarios defined by Banco de Portugal.

In addition to the stress tests reported to Banco de Portugal, Banco Montepio regularly conducts other impact studies that are intended to provide an analytical view of the bank's position in terms of liquidity, profits and capital when subject to unfavourable scenarios stemming from changes in risk factors such as interest rates, credit spreads, deposit runoffs, eligible asset valuation haircuts applied by the European Central Bank (the "**ECB**"), credit ratings, portfolio and collateral losses, among other factors.

The results under the adverse scenarios, including those resulting from the adverse macroeconomic scenarios defined by Banco de Portugal show that Banco Montepio continues to enjoy suitable capitalisation levels.

The impact studies and results are disclosed to and discussed with the board of directors, with the subsequent conclusions incorporated in the strategic decision making processes, namely in the determination of solvency levels, liquidity, exposure to specific risks (counterparty and price risks) and global risks (interest rate, foreign exchange and liquidity risks), as well as in the pricing, loan criteria and development of products offered.

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

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

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

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

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

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

In this regard, the Italian and Spanish Governments enacted, in 2011 (Italy) and 2013 (Spain, with retroactive effect to 2011), amendments to national tax law that allow for the conversion of DTAs into tax credits, with the aim of fulfilling the requirements for non-deductibility of DTAs from CET1 capital of resident credit institutions.

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

Law no. 61/2014 foresees that any DTA arising from the abovementioned items, accounted in taxable periods starting on or after 1 January 2015, or registered in the taxpayer's accounts in the last taxable period prior to that date, may be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the institution's annual financial statements are formally approved by the competent corporate bodies; or (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorisation by the regulator or supervisory body. The amount of DTA to be converted into tax credits corresponds to the ratio between (a) the amount of the annual accounting loss, and (b) the total amount of equity minus the amount in (a) above, and is declared by the Corporate Income Taxpayers in their annual Corporate Income Tax return, to be submitted within the five-month period after the year-end. The amount of the declared tax credit must subsequently be confirmed by the tax authorities through a tax audit procedure to be initiated within the three-month period following the expiry of the abovementioned annual corporate income tax return submission deadline. The tax credits obtained with the conversion of DTA may be offset against any State taxes on income and on assets payable by the taxpayer or by any companies included in the same tax group or in the same group for purposes of prudential consolidation under the CRR.

However, the conversion of DTA entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese Republic. The warrants entitle the Portuguese Republic (i) to demand the increase of the issuer's share capital through conversion of the special reserve and subsequent issue and delivery of ordinary shares representing the issuer's share capital; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of the issuer's share capital. To mitigate the effects of the possible shareholding dilution resulting thereof, Law no. 61/2014 grants that, at the date of issuance of the warrants, existing shareholders are automatically vested statutory entitlements that allow them to purchase the warrants from the Portuguese Republic.

The amendments to the DTAs conversion regime, enacted by Law No. 23/2016 of 19 August 2016, establish that the DTAs conversion is not applicable to any DTAs arising from the mismatch between the accounting and tax regimes from 1 January 2016 onwards, without precluding its applicability to DTAs generated with respect to the previous fiscal years.

The DTA related to reported losses are deducted from regulatory capital, and the DTA related to temporary mismatches that depend on future profitability are partially deducted from capital (the portion that exceeds the threshold of 10 per cent. of CET1) and partially weighed at 250 per cent. Finally, the DTA related to temporary mismatches protected by the Portuguese fiscal regime are weighed at 100 per cent. Potential future changes to the way in which the Portuguese fiscal regime operates could result in previously protected DTAs (that would eventually be converted into DTA related to temporary mismatches that depend on future profitability) no longer being protected. At this point, there are no expected changes in the fiscal regime that could negatively affect the calculation of DTAs on capital ratios, but Banco Montepio cannot assure investors that the expected changes will not take place.

The Issuer applied IFRS 9 in the period beginning on 1 January 2018. Since no specific tax treatment was established regarding the transition adjustment to IFRS 9, the Bank considered the application of the Corporate Income Tax general rules. Any new transitional regime established for those purposes or different interpretation on the tax treatment of the adoption of IFRS 9 could result in a material adverse effect on the recovery of deferred taxes.

Law no. 98/2019, of 4 September, foresees changes to the Portuguese CIT Code, namely to articles 28-A and 28-C, in order to approximate the tax regime applicable to credit impairments registered by entities subject to the supervision of Banco de Portugal to the accounting and regulatory rules applicable.

This regime is applicable to impairments regarding all types of credit risk and whether analyzed on an individual or collective basis. However, it lists down specific exceptions to the deductibility of credit impairments, namely:

- on credits and other rights over individuals or entities that hold directly or indirectly over 10 per cent. of the financial institution's capital or over its governing body's members (with certain exceptions); and,
- on credits and other rights over entities whose capital is held directly or indirectly in more than 10 per cent. by the financial institution or over participated entities in which the financial institution is engaged in special relations with, provided they are given after the participation acquisition or verification of the condition that determines the special relation situation (with certain exceptions).

In addition, Law no. 98/2019, of 4 September, also establishes that the new regime is applicable to impairment losses accounted in 1 January 2019 onwards, whereas regarding previously accounted impairment losses and yet not accepted for tax purposes, Notice 3/95 of Banco de Portugal remains applicable (without prejudice to the Special Regime of Deferred Tax Assets approved by Law no. 61/2014).

Furthermore, a multi-year map of impairment losses for specific credit risk regarding credits analysed on an individual basis and for groups of credits analysed on a collective basis must now be included in the tax documentation file ("**Dossier Fiscal**"), which must contain accounting information and tax adjustments detailed by credit or group of credits:

It is important to mention that regarding the disclosure of information referred, the penalty for lack of, delayed or wrong presentation ranges between €375 and €22,500.

Additionally, Law no. 98/2019, of 4 September, foresees an adaptation period of 5 tax years after 1 January 2019, under which the current regime is still applicable (i.e. Notice 3/95 of Banco de Portugal), unless communicated otherwise to the general director of the Portuguese Tax Authorities. Notwithstanding, financial institutions have to adopt this new regime from 2022 or 2023 onwards, as applicable, if on the 1st of January of those years they acquire own shares or distribute dividends to shareholders in respect of profits generated in those periods, except in cases where, as at 31st of December of those years, the value of the deferred tax assets covered by REAID has decreased by at least 10 per cent. or 20 per cent., respectively, compared to the amount accounted at 31st December 2018.

Banco Montepio is still applying the current tax regime since it has not decided whether or not it will apply this new tax regime. If Banco Montepio decides to apply this new tax regime for the impairment losses accounted from 1 January 2019 onwards, it has to communicate to the general director of the Portuguese Tax Authorities until 31 October.

The principal rules with which Banco Montepio and all Portuguese banks must comply include the following:

(a) Solvency ratio

Since the beginning of 2014, prudential indicators are Basel III-compliant. As such, Banco Montepio's Own Funds are divided into CET1, Tier 1 and Tier 2. As at 30 June 2019, Banco Montepio's CET1 ratio stood at 13.7 per cent., pursuant to the phasing-in criteria of the CRD IV package and Banco de Portugal's Notice (*Aviso*) 10/2017. When measured under the full implementation criteria, the CET1 ratio was 11.9 per cent.

(b) Limitations on credit risk concentration

Exposure is classified as a large exposure where the liabilities of a counterparty (or such counterparty's group) represent 10 per cent. or more of Banco Montepio's own funds. The total exposure of Banco Montepio to a counterparty (or such counterparty's group) cannot exceed 25 per cent. of Banco Montepio's own funds and the global value of large exposures cannot be greater than eight times the amount of such own funds. As at 30 June 2019, none of Banco Montepio's exposures exceeded such levels.

(c) Limitations on equity participations in relation to own funds

Direct and indirect participating interests held by Banco Montepio in the share capital of entities not subject to Banco de Portugal's supervision cannot exceed 15 per cent. (individually) and 60 per cent. (in aggregate) of Banco Montepio's own funds. Participating interests and non-participating interests are, for the purposes of Banco de Portugal's regulations, distinguished essentially by determining the period of time over which the interest is to be held or is intended to be held. An interest will be defined as "participating" if there is a sufficient degree of permanence in such holding. As at 30 June 2019, Banco Montepio did not hold any participating interest, directly or indirectly, in the share capital of any such entities which exceeded such limits.

(d) Limitations on participating interests in relation to the share capital of certain companies

The direct and indirect participating interests to be held for three years or more by Banco Montepio in non-financial entities are limited to 25 per cent. of the voting rights in the share capital of such non-financial entities. As at 30 June 2019, Banco Montepio did not hold any participating interest, directly or indirectly, exceeding such limit.

(e) Limitations on credit to qualified shareholders

The total exposure of Banco Montepio to a qualified shareholder cannot exceed 10 per cent. of Banco Montepio's own funds and the global value of exposures to qualified shareholders cannot be greater than 30 per cent. of such own funds. As at 30 June 2019, Banco Montepio did not have any exposure to a qualified shareholder exceeding such limit.

THE PORTUGUESE ECONOMY

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

On 17 May 2014, the FAP came to an end, which constituted an important moment for the evolution of the Portuguese economy. During the implementation period, there was significant progress in the correction of certain macroeconomic imbalances and various structural measures were adopted where needed. Notwithstanding this progress, the return to normal market conditions in respect of funding to the Portuguese economy required sustained product growth. Such product growth was also crucial to bringing about a reduction in the high level of unemployment observed in the Portuguese economy (which in 2013 reached a maximum annual average of 16.2 per cent., having started a downward trajectory in 2014 reaching 7.0 per cent. in 2018).

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

Portugal's debt-to-GDP ratio was 129.2 per cent. of gross domestic product ("**GDP**") in 2016, 124.8 per cent. in 2017 and 121.5 per cent. in 2018 slightly above 121.2 per cent. forecasted in the Portuguese Government's State Budget for 2019 (the "**SB 2019**"), approved on 29 November 2018. The level of public debt is projected to continue its gradual declining trend (118.5 per cent. in 2019, according SB 2019; 118.6 per cent. in the Stability Programme 2019-2023 – **SP 2019-2023**, document that expects that in 2023 the ratio will be 99.6 per cent.). Given the current high level of government debt, Portugal still appears to face high fiscal sustainability risks in the medium-term. However, in the long-term, Portugal faces low fiscal sustainability risks, particularly due to the positive structural primary balances since 2012.

In addition, Portugal's GDP grew by 2.1 per cent. in 2018, below the government's projected growth of 2.2 per cent. presented in the SB 2018 and in deceleration face 2.8 per cent. in 2018, which represents the highest rate of growth since the beginning of the millennium. As expected, the economic growth registered in 2018 reflected the positive domestic demand contribution of 2.8 percentage points. The deceleration of this contribution (compared to 3.1 percentage points in 2017) mainly reflects the strong deceleration in investment ("**GFCF**"), as private consumption and public consumption accelerated and investment in change in inventories saw the contribution increase. Private consumption expanded by 2.6 per cent. (compared to 2.3 per cent. in 2017), while GFCF rose by 4.5 per cent., strongly decelerating the growth of 9.2 per cent. in 2017. Public consumption rose 0.8 per cent. (compared with the slightly expansion of 0.2 per cent. in 2017) and the change in inventories had a positive contribution of 0.2 percentage points, after having made a relatively negligible contribution in 2017 (+0.02 percentage points). Meanwhile, net exports showed a negative contribution of 0.7 percentage points, penalising growth for the fifth consecutive year (-0.3 percentage points in 2017). The negative contribution of net exports in 2018 reflects increases of 3.7 per cent. in exports (compared to 7.8 per cent. in 2017) and 4.9 per cent. in imports (compared to 8.1 per cent. in 2017). Although net exports in 2018 have once again penalised growth, the economic recovery has continued to be sustained by exports, which at the end of 2018 were 52.9 per cent. higher than pre-adjustment programme levels (i.e. 2010). Exports of services, notably tourism, have continued to grow at a steady pace, as several Portuguese destinations consolidate their prestige in the international markets.

For 2019, Banco de Portugal (on 12 June 2019), European Commission (on 7 may 2019) and IMF (on 9 April 2019) forecasts a deceleration in GDP growth to 1.7 per cent. (+2.1 per cent. in 2018), below the projected by Portuguese Government (2.2 per cent. in the SB 2019; 1.9 per cent. in the SP 2019-2023), and the 1.8 per cent. forecasted by OECD (on 22 May 2019).

However, growth prospects for the Portuguese economy will naturally be affected by the prospects for the evolution of the global economy. In April 2019, IMF, in addition to making a new downward revision of global economy growth, identified a series of (six) risks that, should they materialise, would place the world economy at a lower rate of growth than that currently forecast: *i*) the trade tensions continue to be a reason for concern. Progress has been made in relations between the USA and China, but some results still depend on the negotiation process. Apart from the direct impacts, the IMF considers that the uncertainty and fear of an escalation in protectionism undermine investment by companies; *ii*) the IMF's projections assume a recovery in the Euro Zone, underpinned by a scenario that prevents a disorderly withdrawal of the United Kingdom from the European Union (Brexit), that the measures of stimulation adopted by the Chines government cause effects, and that the impact of the fiscal package in the USA will begin to vanish. Any evolution different from that assumed could place in question the current forecast of world growth; *iii*) cyber-attacks also constitute a source of risk for financial markets, as they can have a severely disruptive effect in payment systems and in the circulation of goods and services; *iv*) the political risks related to the agenda of new governments after recent elections, the conflict in the Middle East or the tensions in East Asia could, when combined, also have a harmful effect on growth; *v*) the medium term risks that the IMF sees are the impact that climate change could have on the global economy, the lack of confidence in institutions and political parties, that lead to a polarisation less able to facilitate reforms; and *vi*) the evolution of commodity prices is another uncertainty, with the IMF assuming that the risks to global growth are now greater.

In particular for the Portuguese economy, domestically, the main challenges are linked to: *i*) the persistently weak situation of the banking system; *ii*) the continuation of some political risks, in a context in which the country continues committed to objectives of consolidation of public finance in the medium term, and the consequent need for structural reforms. On the positive side, the recovery of the labour market could continue to surpass expectations, supporting greater growth of domestic demand.

At the same time, in spite of the continued deleveraging process of the non-financial private sector over the last few years, this sector is still highly indebted €400.9 million in April 2019, implying that the effort to reduce debt will have to be further pursued for the main economic agents, households and non-financial companies to be able to continue to meet debt servicing requirements. If the deleveraging process does not continue, the risk of credit default might increase, with negative impacts on the asset quality of banks, especially in a scenario of a future rise in interest rates.

Externally, the economy is still vulnerable to the evolution of global demand which, as a central scenario, should continue to rise, but which is also surrounded by risks. The upward risks are above all derived from: *i*) the low price of oil the average price of oil of 2019 should be lower than that of 2018, which should continue to support the terms of trade; *ii*) the possibility of the global economy growing at a higher rate than that expected. On the negative side, we highlight: *i*) the political uncertainty in the Euro Zone (namely, parliamentary support to the governments of Spain and Germany, and the recent instability experienced in France and Italy); *ii*) the possibility of a recrudescence of tensions in financial markets, making the international panorama less favorable than that considered in the projections (the events in Italy in the middle of 2018 and the signs of contagion observed), negatively affecting the financing conditions of the Portuguese economy; *iii*) an overly rapid appreciation of the euro could constrain the competitiveness of the economy (a risk less pressing than at the beginning of 2018); *iv*) the effects of the somewhere in the future reduction of the expansionary nature of the ECB's monetary policy on the yield rates of Portuguese debt; *v*) increased protectionism at a global level; *vi*) the high geopolitical risk: *a*) uncertainty about the situation of Catalonia; *b*) uncertainty about the Brexit process; *c*) uncertainty relative to the economic and trade policy that will be conducted by USA; *d*) geopolitical uncertainty in the Middle East (e.g.

Syria), in the Far East (e.g. North Korea), mitigated by the holding of the Singapore summit between North Korea and the USA leaders) and in Eastern Europe (Russia/Ukraine) and in USA/Russia, USA/Turkey and USA/Saudi Arabia relations.

With respect to the labour market, the unemployment rate decreased from 11.1 per cent. in 2016 to 7.0 per cent. in 2018, continuing the trend of reduction from the historical peak reached at the beginning of 2013 (17.5 per cent.), with a further reduction being projected by Banco de Portugal for 2019, to 6.3 per cent., and for 2020, to 5.7 per cent., which compares with the 6.6 per cent. and 6.3 per cent. projected by the Government in the SP 2019-2023.

On the other hand, the average rate of change of the Portuguese consumer price index ("**CPI**") was 1.0 per cent. in 2018, decelerating from the 1.4 per cent. observed in 2017 (and compared to 0.6 per cent. in 2016, 0.5 per cent. in 2015 and -0.3 per cent. in 2014), with core inflation (excluding energy, food and tobacco prices) at 0.6 per cent. in 2018 (compared to +1.1 per cent. in 2017). When considering the harmonised consumer prices index ("**HCPI**"), a slight acceleration of inflation in 2019 is expected by Banco de Portugal, to 0.9 per cent. (+1.2 per cent. in 2018 and +1.6 per cent. in 2017), below 1.4 per cent. projected in the SB 2019 (+1.3 per cent. in SP 2019-2023).

In Portugal, 2017 and 2018 was marked by a strong decrease in the country risk, reflected in the reduction of the spread of 10-year Portuguese bonds, a favourable trend that was maintained in 2018. The GDP has grown more than anticipated and the unemployment rate has fallen more than expected, with better prospects for meeting the budget targets. In recent years, Portugal started a process of fiscal adjustment, despite the sharp increase in the deficit observed in 2017, caused by the recapitalisation of Caixa Geral de Depósitos ("**CGD**"). Indeed, following the budget deficit of 2.0 per cent. of GDP in 2016, in decline from the 4.4 per cent. deficit in 2015 - a reduction which benefited from some extraordinary effects - the budget deficit in 2017 amounted to 3.0 per cent. of GDP, representing an annual deterioration of the balance of 1.0 percentage point, reflecting an increase in expenditure of 6.2 per cent., mainly due to the impact of the recapitalisation of CGD, while revenue grew by 3.9 per cent. Excluding this impact, the budget deficit for the whole of 2017 was only 0.9 per cent., a figure well below that initially estimated by the Government in the SB 2018 (1.4 per cent.). This positive performance continued in 2018, a year in which the deficit fell to 0.5 per cent., more favorable than the 0.7 per cent. of GDP projected by the Government in SB 2019, by the OECD (on 21 November 2018), the EC (on 8 November 2018) and the IMF (on 9 October 2018), and which represents the lowest deficit of the entire democratic history of Portugal, given that the previous lower deficit was, according to longer annual series, in 1974, of 1.0 per cent. of GDP. For 2019, the Government expects a further reduction of the budget deficit to 0.2 per cent. of GDP (in SB 2019 and in SP 2019-2023), a forecast, in this case, in line with the 0.2 per cent. forecast by IMF (on 17 May 2019), being in turn below the 0.3 per cent. of GDP projected by the Portuguese Public Finance Council (on 14 March 2019), the 0.4 per cent. of GDP projected by the European Commission (on 7 May 2019) and the 0.5 per cent. of GDP projected by OECD (on 21 May 2019).

Other favourable developments contributed to the reduction of the country risk during 2017, 2018 and 2019, such as Portugal's exit from the Excessive Deficit Procedure ("**EDP**"), positive developments in unemployment, general economic growth and favourable prospects for the achievement of budgetary targets. On 9 September 2017, Standard & Poor's increased the Portuguese Republic's rating to the first level of investment grade with a favourable outlook, and, on 15 September 2018, maintained the rating but improved the outlook from stable to positive. In turn, on 15 December 2017, Fitch increased its rating to two levels above "junk" maintaining the positive outlook, and reiterated this rating on 1 June 2018. On 12 October 2018, Moody's upgraded the Portuguese Republic's domestic and foreign long-term issuer rating one level above "junk" from Ba1 to Baa3, whereas the outlook has been changed from positive to stable. This update was driven by (1) Portugal's high general government debt move to a sustainable, albeit gradual, downward trend, with limited risks of reversal; and (2) the increased economic resilience following the broadening of Portugal's growth drivers and a structurally improved external position. More recently, at 15 March 2019, Standard & Poor's hold rating and outlook (BBB and stable, respectively), but DBRS (on 5 April 2019) and Fitch (on 24 May 2019) hold rating at BBB, but both changed outlook from stable to positive.

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

TAXATION

The following is a general description of certain Portuguese, Luxembourg and United States tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Portugal, Luxembourg and the United States of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This description is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Portugal

The following is a general description of certain Portuguese tax consequences of the acquisition and ownership of Notes. It does not purport to be an exhaustive description of all tax considerations that may be relevant to decide about the purchase of Notes. 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 Notes are advised to consult their own tax advisers as to the tax consequences resulting from the purchase, ownership and disposition of Notes, 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, redemption or reimbursement premiums and other types of remuneration arising from Notes issued by private entities are qualified as investment income for Portuguese tax purposes. In the case of Zero Coupon Notes, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

General tax regime on debt securities

Interest and other types of investment income obtained on Notes 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.

Without prejudice to the special debt securities tax regime as described further 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.

Capital gains obtained by Portuguese resident individuals on the transfer of Notes are taxed at a special tax rate of 28 per cent. levied on the positive difference between the capital gains and capital losses of each year, which is the final tax on that income unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. plus an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000.

Interest and other investment income derived from Notes and capital gains obtained with the transfer of Notes 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. (20 per cent. in the Autonomous Region of Madeira; 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 per cent. in the Autonomous Region of Madeira; 13.6 per cent. in the Autonomous Region of Azores) for taxable profits up to €15,000 and 21 per cent. (20 per cent. in the Autonomous Region of Madeira; 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 (2.5 per cent. in the Autonomous Region of Madeira; 2.4 per cent. in the Autonomous Region of Azores), of 5 per cent., on the part of the taxable profits that exceeds €7,500,000 (4.5 per cent. in the Autonomous Region of Madeira; 4 per cent. in the Autonomous Region of Azores) and 9 per cent. on the part of the taxable profits that exceeds €35,000,000 (8.5 per cent. in the Autonomous Region of Madeira; 7.2 per cent. in the Autonomous Region of Azores).

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 beneficial owner is either a financial institution, a pension fund, a retirement or education fund, a share savings fund, a venture capital fund, 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 or 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 individuals or legal persons 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*).

Interest and other types of investment income obtained by a legal person non resident in Portugal without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent., which is the final tax on that income.

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Base Prospectus, the withholding tax rate may be reduced to 15, 12, 10 or 5 per cent., depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. The reduction may apply at source or through the refund of the excess tax.

Capital gains obtained on the transfer of Notes 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 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 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 Notes 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 per cent. 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 per cent. of the share capital or voting rights for at least 1 year uninterrupted; and (iv) it is not intervenient in an artificial arrangement or a series of artificial 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 Notes, 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 head offices, 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 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*).

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.

Domestic Cleared Notes

Registration of the Notes in the exempt account is crucial for the tax exemption to apply upfront and requires evidence of the non-resident status of the beneficial owner, 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 Notes, as follows:

(i) if the beneficial owner 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 beneficial owner of the Notes 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 Notes is either an investment fund or a collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, domicile and law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iv) below, so long as the beneficial owners of Notes provide the confirmation referred to in paragraph (iv) below; and

(iv) in any other case, information provided in accordance with the following rules: confirmation must be made by the relevant beneficial owner of Notes 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 beneficial owner of the Notes 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 beneficial owner of the Notes must inform the direct registering entity immediately of any change in the requirement conditions that may eliminate the tax exemption.

Luxembourg

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Noteholders, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

In accordance with the law of 23 December 2005, as amended, interest payments made by Luxembourg paying agents to Luxembourg individual resident beneficial owners are subject to a 20 per cent. withholding tax. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

The Proposed Financial Transactions Tax ("FTT")

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Until recently, the FTT proposal was at a standstill at the level of the European Council. Following the meeting of the Council of the EU on 14 June 2019, the FTT currently considered by the participating Member States would be levied on the acquisition of shares or similar instruments of listed companies which have their head offices in a member state of the EU (and market capitalisation in excess of €1 billion on 1 December of the preceding year), rather than on any type of financial instrument. In order to reach a final agreement among the participating Member States, further work in the Council and its preparatory bodies will be required in order to ensure that the competencies, rights and obligations of non-participating EU member states are respected.

The proposed FTT remains subject to negotiation between participating Member States and the scope of any such tax and its adoption is uncertain and remains unclear. Additional EU member states may decide to participate.

If the proposed directive or any similar tax was adopted, and depending on the final terms and scope of the FTT, transactions on the Notes could be subject to higher costs, and the liquidity of the market for the Notes may be diminished.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

Administrative cooperation in the field of taxation

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 Organisation for Economic Co-operation and Development in July 2014.

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

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

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

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

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 31 October 2019 (the "**Dealer Agreement**") between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on their own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by an Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment and update of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes 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 in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

If TEFRA C is specified as "Applicable" in the relevant Final Terms, then the Notes 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, as amended, and regulations thereunder.

Each Dealer has agreed that, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such an identifiable Tranche as determined, and certified to the Issuer and each relevant Dealer, by the Agent, or in the case of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Agent shall notify such Dealer when all such Dealers have so certified, 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 Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons of any identifiable Tranche of Notes. Term used in this paragraph have the meanings given to them by Regulations S.

In addition, until 40 days after the commencement of the offering an offer or sale of Notes within the United States by any dealer that is participating in the offering of such Notes may violate the registration requirements of the Securities Act.

Each purchaser of Notes outside the United States pursuant to Regulation S and every subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, will be deemed to have represented, agreed and acknowledged that:

(a) the Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulations S; and

(b) this Note has not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from registration under the Securities Act.

Prohibition of Sales to European Economic Area Retail Investors

Unless the relevant Final Terms in respect of any Notes specifies "Prohibition of Sales to European Economic Area Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes specifies "Prohibition of Sales to European Economic Area Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Regulation, provided that no such offer of Notes referred to in (i) to (iii) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Each Dealer has represented, warranted and agreed that, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Portuguese Republic

In relation to the Notes, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, regarding any offer or sale of Notes by it in Portugal or to individuals resident in Portugal or having a permanent establishment located in the Portuguese territory:

(a) it will comply with all laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code (*Código dos Valores Mobiliários*), any regulations issued by the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) (the "CMVM"), Commission Regulation (EC) No. 2019/979, of 14 March, and Commission Delegated Regulation (EU) No. 2019/980, of 14 March, both supplementing the Prospectus Regulation, and other than in compliance with all such laws and regulations it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Notes in circumstances which could qualify as a public offer (*oferta pública*) of securities pursuant to the Portuguese Securities Code and other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portugal, as the case may be;

(b) all offers, sales and distributions by it of the Notes have been and will only be made in Portugal in circumstances that, pursuant to the Portuguese Securities Code, qualify as a private placement of Notes only (*oferta particular*); and

(c) 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 Notes to the public in Portugal.

Furthermore, (i) if the Notes are subject to a private placement addressed exclusively to qualified investors as defined, from time to time, in Article 30 of the Portuguese Securities Code (*investidores profissionais*), such private placement will be considered as a private placement of securities pursuant to the Portuguese Securities Code; and (ii) private placements addressed by companies open to public investment (*sociedades abertas*) or by issuers of securities listed on a regulated market shall be notified to the CMVM for statistical purposes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that, it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or 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 Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

France

Each of the Dealers and the Issuer have represented, warranted and agreed that:

(a) in relation to offers to the public in France:

it has only made and will only make an offer of Notes to the public in France in the period beginning on the date of notification to the *Autorité des marchés financiers* ("**AMF**") of approval of the prospectus in relation to those Notes, by the competent authority of a Member State of the European Economic Area, other than the AMF, all in accordance with articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Réglement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of this Base Prospectus; or

(b) in relation to private placements in France:

it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the relevant final terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or (b) qualified investors (*investisseurs qualifiés*), acting for their own account, all as defined in, and in accordance with articles L.411-1, L.411-2 and D.411-1 to D.411-4 of the French Code *monétaire et financier*.

This Base Prospectus has not been submitted to the clearance procedures of the AMF.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA), pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities or securities-based contracts (each term as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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 representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or registers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms in all cases at its own expense.

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 its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

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 its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer 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 CDS or the creation of short positions in the securities, including potentially the Notes offered hereby. Any such positions could adversely affect future trading prices of the Notes offered hereby. 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.

FORM OF FINAL TERMS

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

[**PROHIBITION OF SALES TO EUROPEAN ECONOMIC AREA RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2016/97/EC where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][1]

[**MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the manufacturer ['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer ['s/s'] target market assessment) and determining appropriate distribution channels.]

[**Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore –** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**"), and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ['prescribed capital markets products']/[capital markets products other than 'prescribed capital markets products'] (as defined in the CMP Regulations 2018) and [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.][2]

Final Terms dated [●]

Legal entity identifier (LEI): 2138004FIUXU3B2MR537

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

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €6,000,000,000

[1] Include where item (vii) of Section 6 (Distribution) of Part B - Other Information of the Final Terms specifies "Applicable".

[2] For any Notes to be offered to Singapore investors, the Issuer is to consider whether it needs to reclassify the Notes pursuant to Section 309B of the SFA prior to the launch of the Offer.

Euro Medium Term Note Programme

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 31 October 2019 [and the supplement(s) to it dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation 2017/1129/EC (as amended, the "**Prospectus Regulation**") (the "**Base Prospectus**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8.2(a) the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange (at www.bourse.lu.)]

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

1	(i)	Series Number:	[●]
	[(ii)	Tranche Number:	[●]]
	[(iii)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert amount, interest rate, maturity date and issue date of the Series*] on [*insert date*/the Issue Date].]
2		Specified Currency or Currencies:	[●]
3		Aggregate Nominal Amount of Notes:	[●]
	(i)	Series:	[●]
	[(ii)	Tranche:	[●]]
4		Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
5	(i)	Specified Denominations:	[●] (*Notes will only be tradeable in the Specified Denomination*)
	(ii)	Calculation Amount:	[●]
6	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date	[*Specify*/Issue Date/Not Applicable]
7		Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
8		Interest Basis:	[[●] per cent. Fixed Rate] [Reset Notes] [[*specify particular reference rate*] +/– [●] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
9		Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [par]/[[●] per Calculation Amount] [*such amount will be no less than par*]

10	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)] [Not Applicable]
11	[(i)] Status of the Notes:	[Ordinary Senior Notes] [Senior Non Preferred Notes] [Subordinated Notes]
	[(ii)] [Date [Board] approval for issuance of Notes obtained:	[●] [and [●], respectively]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii) Interest Payment Date(s):	[●] in each year
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv) Broken Amount(s):	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction:	[Actual/Actual]/[Actual/Actual-ISDA]/[Actual/365(fixed)]/[Actual/360]/[30/360]/[360/360]/[Bond Basis]/[30E/360]/[Eurobond Basis]/[30E/360(ISDA)]/[Actual/Actual-ICMA]
	(vi) Determination Dates:	*[●] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual-ICMA)*
13	**Reset Note Provisions**	[Applicable/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Initial Rate of Interest:	[●] per cent. per annum payable in arrear [on each Interest Payment Date]
	(ii) First Margin:	[+/-][●] per cent. per annum
	(iii) Subsequent Margin:	[[+/-][●] per cent. per annum][Not Applicable]
	(iv) Interest Payment Date(s):	[●] [and [●]] in each year up to and including the Maturity Date[[in each case,] subject to adjustment in accordance with paragraph 13(xvi)]
	(v) Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[●] per Calculation Amount][Not Applicable]
	(vi) Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]][Not Applicable]

	(vii) First Reset Date:	[●][subject to adjustment in accordance with paragraph 13(xvi)]
	(viii) Second Reset Date:	[●]/[Not Applicable][subject to adjustment in accordance with paragraph 13(xvi)]
	(ix) Subsequent Reset Date(s):	[●] [and [●]] [subject to adjustment in accordance with paragraph 13(xvi)]
	(x) Relevant Screen Page:	[●]
	(xi) Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(xii) Fixed Leg Frequency:	[●]
	(xiii) Floating Leg Frequency:	[●]
	(xiv) Day Count Fraction:	[Actual/Actual][Actual/Actual – ISDA][Actual/365 (Fixed)][Actual/360][30/360][360/360][Bond Basis][30E/360][Eurobond Basis][30E/360 (ISDA)][Actual/Actual – ICMA]
	(xv) Determination Dates:	[●] in each year
	(xvi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(xvii) Business Centre(s):	[●]
	(xviii) Calculation Agent:	[●]
	(xix) [First Reset Period Fallback]	[●]
	(xx) [Swap Rate Period]	[●]
14	**Floating Rate Note Provisions**	[Applicable/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Interest Period Date:	[●] [Not Applicable] (*Not Applicable unless different from Interest Payment Date*)
	(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(v) Business Centre(s):	[●]
	(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
	(viii) Screen Rate Determination:	
	– Reference Rate:	[LIBOR/EURIBOR]

	–	Interest Determination Date(s):	[●]
	–	Relevant Screen Page:	[●]
	(ix)	ISDA Determination:	
	–	Floating Rate Option:	[●]
	–	Designated Maturity:	[●]
	–	Reset Date:	[●]
	(x)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
	(xi)	Margin(s):	[+/-][●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction:	[Actual/Actual][Actual/Actual – ISDA][Actual/365 (Fixed)][Actual/360][30/360][360/360][Bond Basis][30E/360][Eurobond Basis][30E/360 (ISDA)][Actual/Actual – ICMA]
15	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortisation Yield:	[●] per cent. per annum

PROVISIONS RELATING TO REDEMPTION

16	**Call Option**		[Applicable/Applicable subject to the Relevant Authority's prior permission (as set out in Condition 5(k))/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii)	Ordinary Senior Notes – MREL Event;	[Not Applicable/The provisions in Condition 6(f) apply]]
	(iv)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(v)	Notice period	[●]
17	**Put Option**		[Applicable/Not Applicable] (*If Not Applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of	[●] per Calculation Amount

	each Note:	
	(iii) Notice period	[●]
18	**Final Redemption Amount**	[●] per Calculation Amount
19	**Early Redemption Amount**	[●] per Calculation Amount
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, upon a Capital Event (in the case of Subordinated Notes) or on event of default	
20	**[Early Redemption Amount (MREL Event)**	[●] per Calculation Amount[3]
	Early Redemption Amount (MREL Event) per Calculation Amount payable upon an MREL Event (in the case of Senior Non Preferred Notes and Ordinary Senior Notes where "Ordinary Senior Notes MREL Event" has been specified as "Applicable" in the Final Terms)]	

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21	Financial Centre(s) or other special provisions relating to payment dates:	[*Not Applicable/give details. (Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraph 13(xvii) relates)*]
22	Ordinary Senior Notes: Waiver of Set-Off	Condition [2(c)] is [Not] Applicable][4]
23	[Ordinary Senior Notes: Negative Pledge	Condition 3(a) is [Not] Applicable][5]
24	[Ordinary Senior Notes: Events of Default	Condition 9(a) is [Not] Applicable][6]
25	[Capital Event: Substitution and Variation	Condition 5(j) is Applicable/Not Applicable][7]
26	[MREL Event: Substitution and Variation	Condition 5(j) is Applicable/Not Applicable][8]

[3] Include only for Senior Non Preferred Notes and Ordinary Senior Notes where "Ordinary Senior Notes – MREL Event" has been specified as "Applicable" in the Final Terms.

[4] Include for Orindary Senior Notes only. Select "Applicable" for Ordinary Senior Notes intended to be MREL Eligible Instruments.

[5] Include for Ordinary Senior Notes only.

[6] Include for Ordinary Senior Notes only. Select "Not Applicable" for Ordinary Senior Notes intended to be MREL Eligible Instruments.

[7] Include for Subordinated Notes only.

[8] Include for Senior Non Preferred Notes and Ordinary Senior Notes intended to be MREL Eligible Instruments.

THIRD PARTY INFORMATION

[Not Applicable][[[●] has been extracted from [●]], which, when read together with the Prospectus referred to above, contains all information that is material in the context of the issue of the Notes. 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 [●], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of Caixa Económica Montepio Geral, caixa económica bancária, S.A.:

By: …...
Duly authorised

By: …...
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

(i) Listing and Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to the [Official List] of [the Luxembourg Stock Exchange/[●]] and to be admitted to trading on [the Luxembourg Stock Exchange's regulated market/[●]] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to the [Official List] of [the Luxembourg Stock Exchange/[●]] and to be admitted to trading on [the Luxembourg Stock Exchange's regulated market/[●]] with effect from [●].][Not Applicable.] (*Where documenting a fungible issue need to indicate that* original *Notes are already admitted to trading.*)
(ii) Estimate of total expenses related to admission to trading:	[●]

2 RATINGS

Ratings:	[The Notes to be issued [have been rated/are expected to be] rated]/[The Notes to be issued have not been rated][The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [Fitch: [●]] [Moody's: [●]] [DBRS: [●]] [[Other]: [●]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) (*Include appropriate Credit Rating Agency Regulation (1060/2009) ("**CRA Regulation**") disclosure*) [*A list of rating agencies registered under the CRA Regulation can be found at (www.esma.europa.eu/ page/list-registered-and-certified-CRAs).*]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

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

[So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.]

[●]

(*Amend as appropriate if there are other interests*)

(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 23 of the Prospectus Regulation.*)

4 YIELD

[*Include for Fixed Rate Notes only*]

Indication of yield:	[●] [Not Applicable]

5 OPERATIONAL INFORMATION

(i)	ISIN:	[●]
(ii)	Common Code:	[●]
(iii)	CUSIP:	[●]
(iv)	CINS:	[●]
(v)	Any clearing system(s) other than Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., Euroclear Bank S.A./NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s) [and address(es)]*]
(vi)	Names and addresses of initial Paying Agent(s) (if any):	[●]
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●] [Not Applicable]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity of securities settlement system and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

6 DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Date of [Subscription] Agreement:	[●]
(iv)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(v)	If non-syndicated, name of relevant Dealer	[Not Applicable/*give name*]

(vi)	U.S. Selling Restrictions:	[Reg. S Compliance Category 2; TEFRA C Applicable/TEFRA Not Applicable]
(vii)	Prohibition of Sales to European Economic Area Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified.* *If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)

7 **EU BENCHMARK REGULATION**

EU Benchmark Regulation: Article 29(2) statement on benchmarks:	[Not Applicable]
	[Applicable: Amounts payable under the Notes are calculated by reference to [i*nsert name[s] of benchmark(s)*], which [is/are] provided by [*insert name[s] of the administrator[s] – if more than one specify in relation to each relevant benchmark*]. [As at the date of the Final Terms, [*insert name[s] of the administrator[s]*] [is/are] [not] included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority [("**ESMA**")] pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) [(the "**BMR**")].] [*repeat as necessary*]]

8 **USE AND ESTIMATED NET AMOUNT OF PROCEEDS**

(i)	Use of Proceeds:	[Per the Base Propsectus]/[*specify*]]
(ii)	Net Amount of Proceeds:	[●]

GENERAL INFORMATION

(1) The Issuer has obtained all necessary consents, approvals and authorisations in the Portuguese Republic in connection with the establishment and update of the Programme. The 2019 update of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 25 July 2019.

(2) Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of MiFID II.

(3) There has been no significant change in the financial or trading position of Banco Montepio since 30 June 2019, the date of the last published interim financial statements of Banco Montepio for the six months ended 30 June 2019 and no significant change in the financial performance of Banco Montepio since the date of the last audited consolidated annual financial statements of Banco Montepio for the financial year ended 31 December 2018.

(4) There has been no material adverse change in the prospects of Banco Montepio since 31 December 2018, the date of the last audited consolidated annual financial statements of Banco Montepio for the financial year ended 31 December 2018.

(5) Save as disclosed on pages 115-116 in "– *Description of the Issuer – Legal and arbitration proceedings*", neither Banco Montepio nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Banco Montepio is aware) during the 12 months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects, in the context of the issue of the Notes, on the financial position or profitability of the Banco Montepio Group.

(6) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

(7) Notes have been accepted for clearance through Interbolsa. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Interbolsa is Avenida da Boavista, no. 3433, 4100-138, Porto, Portugal. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any Alternative Clearing System will be specified in the applicable Final Terms.

(8) For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection and, in the case of (iii), (iv) and (v) below, copies will be available free of charge, at the (a) registered office of the Issuer and at the specified office of the Agent and (b) on the website of the Issuer at https://www.bancomontepio.pt/investor-relations:

(i) the Instrument (which includes the form of the Notes);

(ii) the Agency Terms;

(iii) the Articles of Association of the Issuer;

(iv) the Annual Report 2018 and the Annual Report 2017;

(v) the interim financial statements for the six month period ended 30 June 2019;

(vi) each set of Final Terms for Notes that are listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange or are listed or admitted to trading on any other stock exchange; and

(vii) a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(9) Copies of the Base Prospectus and the latest annual report and accounts of Banco Montepio and the latest semi-annual interim accounts of Banco Montepio may be obtained at the specified offices of the Agent during normal business hours, so long as any of the Notes is outstanding.

(10) Copies of the Base Prospectus and the documents incorporated by reference will be available to view on the website of the Luxembourg Stock Exchange *(www.bourse.lu)*.

(11) KPMG (Independent Auditors) (authorised and regulated by the *Ordem dos Revisores Oficiais de Contas*) have audited the accounts of Banco Montepio for the two years ended 31 December 2018 and 2017.

(12) Following the general meeting held on 27 May 2019, PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. will replace KPMG as auditors for the term 2019-2021.

(13) PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., having applied limited procedures in accordance with professional standards for a review of such information. However, their report incorporated by reference in this Base Prospectus states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

(14) Where information has been sourced from third parties this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of such third party information is identified where used.

(15) The Legal Entity Identifier (LEI) code of the Issuer is 2138004FIUXU3B2MR537.

(16) The Issuer's website is https://www.bancomontepio.pt. Unless specifically incorporated by reference into this base prospectus, information contained on the website does not form part of this Base Prospectus.

(17) For the avoidance of doubt, the Issuer shall not have any obligation to supplement this Base Prospectus after the end of its 12-month validity period.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

Definition	Sum of the items ‘Financial assets held for trading’, ‘Financial assets at fair value through other comprehensive income’, ‘Other financial assets at amortised cost’, and ‘Financial assets at fair value through profit or loss’.
Relevance	Assess the relative weight of this item from an assets’ structure perspective.

Components and calculus

(thousand euros)

		2017	2018
(a)	Financial assets held for trading	184 076	23 739
(b)	Financial assets at fair value through other comprehensive income	13 029 318	444 073
(c)	Other financial assets at amortised cost	-	1 255 651
(d)	Financial assets not held for trading mandatorily at fair value through profit or loss*	-	492 594
(e)	Securities portfolio and other financial assets* (a + b + c + d)	13 213 394	2 216 057
(f)	Total net assets	20 200 024	18 351 327
	% Securities portfolio and other financial assets (e / f)	**65,4%**	**12,1%**

* In 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest) and derivatives.

ISSUED DEBT

Definition	Sum of the balance sheet items ‘Debt securities issued’ and ‘Other subordinated debt’.
Relevance	Assess the relative weight of this item from a funding structure perspective.

Components and calculus

(thousand euros)

		2017	2018
(a)	Debt securities issued	1 544 054	1 093 934
(b)	Other subordinated debt	236 193	50 044
(c)	Issued debt (a + b)	1 780 247	1 143 978
(d)	Total liabilities	18 437 103	16 814 394
	% of Issued debt (c / d)	**9,7%**	**6,8%**

OFF-BALANCE SHEET RESOURCES

Definition	Assets under management by the Groups’ subsidiaries being a constituent part of Total customers’ resources.
Relevance	Contribute to the analysis of the evolution of total customers’ resources.

Components and calculus

(thousand euros)

		2017	2018
(a)	Securities investment funds	169 202	131 428

(b)	Real estate investment funds	292 058	294 536
(c)	Pension funds	220 773	227 964
(d)	Capitalization Insurance	26 913	22 072
	Off-balance sheet resources (a + b + c + d)	**708 946**	**676 000**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME

Definition	Results arising from interest received on loans granted to customers and interest paid on customers' resources.
Relevance	Assess the evolution of the banking activity of financial intermediation between granting loans and deposit taking.

Components and calculus

(thousand euros)

		2017	2018
(a)	Interest received from loans to customers	363 701	313 856
(b)	Interest paid on customers' deposits	84 696	56 912
	Commercial net interest income (a - b)	**279 005**	**256 944**

OPERATING COSTS

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations.
Relevance	Assess the evolution of the operating costs underlying the banking activity.

Components and calculus

(thousand euros)

		2017	2018
(a)	Staff costs	156 207	156 004
(b)	General and administrative expenses	87 005	77 726
(c)	Depreciation and amortisation	24 809	25 897
	Operating costs (a + b + c)	**268 021**	**259 627**

RATIOS

CTD RATIO: LOANS TO CUSTOMERS (NET) / TOTAL ON-BALANCE SHEET CUSTOMERS' RESOURCES

Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Asses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.

Components and calculus

(thousand euros)

		2017	2018
(a)	Net loans to customers	13 029 318	12 123 212
(b)	Customers' resources	12 561 040	12 575 224
(c)	Debt securities issued	1 544 054	1 093 934
	Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**92,4%**	**88,7%**

EFFICIENCY RATIO: COST TO INCOME, EXCLUDING SPECIFIC IMPACTS

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).

Components and calculus

(thousand euros)

	2017	2018
(a) Tota operating income	505 267	377 352
(b) Results from financial operations (i + ii + iii)	70 737	10 899
(i) Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(14 807)	12 273
(ii) Net gains / (losses) from financial assets at fair value through other comprehensive income	83 622	5 626
(iii) Net gains / (losses) from foreign exchange differences	1 922	(7 000)
(c) Other income (i + ii)	35 885	(8 130)
(i) Net gains / (losses) arising from the sale of other financial assets	37 850	9 075
(ii) Other operating income / (expenses)	(1 965)	(17 205)
(d) Operating costs	268 021	259 627
Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**67,2%**	**69,3%**

COST OF CREDIT RISK

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairment in the income statement, to cover the risk of default of loans granted to customers.
Relevance	Assess the quality of the loan portfolio given the cost borne with the risk of loan default.

Components and calculus

(thousand euros)

	2017	2018
(a) Loan impairments (annualized[1])	160 711	73 191
(b) Average gross loans to customers[2]	14 738 284	13 709 146
Cost of credit risk (a / b)	**1,1%**	**0,5%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for period (2017: 365 days / 2018 : 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.

Components and calculus

(thousand euros)

	2017	2018
(a) Loans and interest overdue by more than 90 days	1 146 222	913 885
(b) Gross loans to customers	14 063 139	13 067 788
Ratio of loans and interest overdue by more than 90 days (a / b)	**8,2%**	**7,0%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.
Relevance	Assess the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.

Components and calculus

(thousand euros)

	2017	2018
(a) Impairment for balance sheet loans	1 033 821	944 576
(b) Loans and interest overdue by more than 90 days	1 146 222	913 885
Coverage of loans and interest overdue by more than 90 days (a / b)	**90,2%**	**103,4%**

NON-PERFORMING EXPOSURES / GROSS LOANS TO CUSTOMERS

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.

Components and calculus

(thousand euros)

	2017	2018
(a) Stock of Non-performing exposures	2 304 759	1 879 079
(b) Gross customer loans	14 063 139	13 067 788
Non-performing exposures / Gross loans to customers (a / b)	**16,4%**	**14,4%**

NON-PERFORMING EXPOSURES (NPES) COVERAGE BY IMPAIRMENT FOR BALANCE SHEET LOANS

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution's capacity to absorb potential losses arising from the NPE portfolio.

Components and calculus

(thousand euros)

	2017	2018
(a) Impairment for balance sheet loans	1 033 821	944 576
(b) Stock of Non-performing exposures	2 304 759	1 879 079
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**44,9%**	**50,3%**

Coverage of Non-performing exposures (NPEs) by balance sheet Impairment and associated collateral and financial guarantees

Definition	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).
Relevance	Assess the institution's capacity to absorb the potential losses arising from the NPE portfolio.

Components and calculus

(thousand euros)

	2017	2018
(a) Impairment for balance sheet loans	1 033 821	944 576
(b) Associated collaterals and financial guarantees	970 986	675 440
(c) Stock of Non-performing exposures	2 304 759	1 879 079
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**87,0%**	**86,2%**

Forborne exposures / Gross customer loans

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Forborne exposures (according to EBA's definition) in relation to the total loan portfolio

Components and calculus

(thousand euros)

	2017	2018
(a) Stock of Forborne exposures	1 159 129	941 589
(b) Gross customer loans	14 063 139	13 067 788
Forborne exposures / Gross loans to customers (a / b)	**8,2%**	**7,2%**

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