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. ("**CEMG**" 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 10 July 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) as amended (the "**Luxembourg Act**") for the approval of this base Prospectus (the "**Base Prospectus**") as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Pursuant to article 7(7) of 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.

Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme 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 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)B3 (senior unsecured) / (P)Caa2 (subordinated) / (P)Caa3 (junior subordinated) / NP (short-term) by Moody's Investor Service España, S.A. ("**Moody's**"); B+ (senior unsecured) / 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 Regulation (EC) No 1060/2009 (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 European Economic Area ("**EEA**") or offered to the public in a Member State of the European Economic Area (an "**EEA State**") in circumstances which require the publication of a prospectus under the Prospectus Directive, 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.*

Amounts payable under the Notes may be calculated by reference to one or more "benchmarks" for the purposes of Regulation (EU) No. 2016/1011 of the European Parliament and of the Council of 8 June 2016 (the "**Benchmarks Regulation**"). In this case, a statement will be included in the applicable Final Terms as to whether or not the relevant administrator of the "benchmark" is included in the European Securities and Markets Authority's ("**ESMA**") register of administrators under Article 36 of the Benchmarks Regulation.

Arranger

BofA Merrill Lynch

Dealers

BNP PARIBAS	**BofA Merrill Lynch**
Caixa Económica Montepio Geral, caixa económica bancária, S.A.	**Citigroup**
Crédit Agricole CIB	**Credit Suisse**
Deutsche Bank	**DZ BANK AG**
ING	**J.P. Morgan**
Natixis	**NatWest Markets**
Société Générale Corporate & Investment Banking	**UniCredit Bank**

The date of this Base Prospectus is 7 June 2018

IMPORTANT INFORMATION

This document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to CEMG and its subsidiaries and affiliates taken as a whole (the "CEMG Group" or the "Group") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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 Final Terms relating to an issue of Notes by the Issuer). To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant 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 Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, 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 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 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. 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 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.

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 CEMG, no other person has separately verified the information contained herein. To the fullest extent permitted by law, none of the Dealers (excluding CEMG 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, 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 applicable 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, stabilisation may not necessarily occur. 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. CEMG 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 CEMG's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections and such statements reflect CEMG'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 CEMG undertakes no obligation to update publicly any of them in light of new information or future events. CEMG 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 and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with 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.

Risk factors relating to CEMG's business

As a result of its business activities, CEMG 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 CEMG's financial condition and results of operations.

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 CEMG, and reduces its ability to sell assets at prices deemed acceptable. Additionally, such market volatility produced downward pressure on stock prices and credit capacity for financial market participants generally.

Since the spring of 2016 until the beginning of 2018, such market volatility was low (except around the time of the Brexit referendum). In the beginning of 2018, there was a resurgence of volatility due to the increase of the long-term interest rates and uncertainty regarding protectionist policies of the U.S. Trump Administration.

More recently, the political developments in Italy and Spain surprised the market. News coming out of these two countries has brought back the dichotomy between periphery and core countries in Europe, which sparked high levels volatility in the capital markets. Moreover, the political turmoil in Italy triggered concerns about the stability of the euro zone.

If current levels of market volatility worsen significantly, CEMG'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 CEMG to liquidate assets held at depressed prices or on unfavourable terms.

These factors could have an adverse effect on the business, financial condition and results of operations of CEMG.

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. In addition, following the recent events in Italy and Spain, continued political turmoil may have 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, based on the evolution of the economic activity, saving levels, investment and employment. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, and the condition of the Portuguese economy and market interest rates.

Structural factors, such as the slow adaptation of some sectors to the increasing external competition, as well as labour laws and the low levels of qualification of a material portion of the workforce, combined with a period of very poor economic growth and the implementation of measures to reduce the public deficit in the context of the Portuguese Financial Assistance Programme ("**FAP**"), have contributed to a rise in the unemployment rate. In fact, during Portugal's last recession, the unemployment rate reached a historically very high level.

In May 2011, the FAP was agreed between the European Central Bank ("**ECB**"), the International Monetary Fund ("**IMF**") and the European Commission ("**EC**", and together, 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 its period of implementation, 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 a 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 level of 16.2 per cent., started a downward trajectory in 2014, reaching 8.9 per cent. in 2017).

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.

As per the Portuguese Government's State Budget for 2018 (the "**SB 2018**"), Portugal's debt-to-GDP ratio was 130.1 per cent. of gross domestic product ("**GDP**") in 2016, 1.3 percentage points higher than in 2015. In 2017, the debt-to-GDP ratio was expected to resume a downward trajectory, reaching 126.2 per cent. by the end of the year and 123.5 per cent. by the end of 2018. However, the latest data released by the Bank of Portugal and the Institute for National Statistics in Portugal indicate that the debt-to-GDP ratio was lower than the Portuguese Government projection in the SB 2018, estimating a debt-to-GDP ratio of 125.7 per cent. of GDP in 2017 compared to 129.9 per cent. of GDP in 2016, suggesting that the debt-to-GDP ratio could remain in 2018 at a level lower than that projected in the SB 2018 (in the Stability Programme 2018-2022 ("**SP 2018-2022**"), published on 13 April 2018, the Portuguese Government projects a debt-to-GDP ratio of 122.2 per cent. in 2018). The level of public debt is projected to continue a gradual declining trend. Given the current high level of government debt, Portugal still appears to face high fiscal sustainability risks in the medium-term. However, in the long-term Portugal faces low fiscal sustainability risks, particularly due to the positive structural primary balances since 2012. In the SB 2018, the Portuguese Government predicts a maintenance at 2.2 per cent. in 2016, a small reduction to 2.1 per cent. in 2017 and a rise to 2.3 per cent. in 2018.

In addition, Portugal's GDP grew 2.7 per cent. in 2017, the highest growth since 2000 (when it grew 3.8 per cent.) and an increase of 2.3 per cent. is expected in 2018, in both case above the levels anticipated in the SB 2018 (i.e. increases of 2.6 per cent. in 2017 and 2.2 per cent. in 2018; however, in the SP 2018-2022, the Portuguese Government already projects a growth of 2.3 per cent. for 2018). As expected, the economic growth in 2017 reflected the positive domestic demand contribution of 2.9 percentage points. The acceleration of this contribution (compared to 1.6 percentage points in 2016) mainly reflects the strong acceleration in investment ("**GFCF**"), but also of private consumption. Private consumption expanded by 2.3 per cent. (compared to 2.1 per cent. in 2016) and public consumption contracted by 0.2 per cent. (compared with the expansion of 0.6 per cent. in 2016), while GFCF rose by 9.1 per cent., strongly accelerating the growth of 1.5 per cent. in 2016. The change in inventories had a negative contribution of 0.1 percentage points to growth, which compares to a negative contribution of 0.1 percentage points in 2016. Meanwhile, net exports showed a negative contribution of 0.2 percentage points, penalising growth for the fourth consecutive year (although in 2016, in a marginal way of a negative contribution of 0.01 percentage points). The negative contribution of net exports in 2017 reflects increases of 7.8 per cent. in exports (compared to 4.4 per cent. in 2016) and 7.9 per cent. of imports (compared to 4.2 per cent. in 2016). Although net exports in 2017 have once again penalised growth, the economic recovery has continued to be sustained by exports, which at the end of 2017 were at a level of 47.7 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 international markets.

Concerning the challenges facing the economy in 2018, the main challenges at the domestic level are: (i) the still weak situation of the banking system; and (ii) the persistence of some political risks (a heterogeneous majority in the parliament supports a minority government) due to the possibility of a return to political instability (although this risk is expected to decrease over time), in a context in which the country should continue committed to the additional consolidation objectives of the public finances demanded by the EU for the medium term and such policies do not have the support of the left-leaning parties supporting the Portuguese Government. On the positive side, the labour market recovery may continue to exceed expectations, supporting higher growth in domestic demand. Externally, the economy remains vulnerable to the evolution of world demand, which as a central scenario is expected to continue to rise, but is also fraught with risks mainly due to: (i) the low oil price (although the average price of 2018 is expected to be higher than previous forecasts), which should continue to favour the terms of trade; and (ii) the possibility of the world economy being able to accelerate more than anticipated. On the negative side, it should be noted: (i) that an accelerated appreciation of the euro could be detrimental to the competitiveness of the economy; (ii) the effects of the recent instability in the financial markets on the conditions of financing of the Portuguese economy; (iii) the effects of the reduction of the ECB's monetary policy expansionary environment on Portuguese debt yields; and (iv) the high geopolitical risk arising from the following factors: (a) the uncertainty about the situation in Catalonia; (b) the uncertainty of the Brexit process; (c) the uncertainty regarding the U.S. economic policy that president Donald Trump will implement, namely protectionist commercial policies; (d) the geopolitical uncertainty in the Middle East (e.g. Syria), the Far East (e.g. North Korea) and Eastern Europe (Russia / Ukraine) and U.S. / Russia relations.

With respect to the labour market, the unemployment rate decreased from 11.1 per cent. in 2016 to 8.9 per cent. in 2017, continuing the trend of reduction from the historical peak reached at the beginning of 2013 (17.5 per cent.), and a further reduction is projected for 2018, to 7.3 per cent., in each case below those in the SB 2018 (9.2 per cent.

and 8.6 per cent., respectively; later, in the SP 2018-2022, the Portuguese Government projected 7.6 per cent. for 2018).

On the other hand, the average rate of change of the Portuguese consumer price index ("**CPI**") was 1.4 per cent. in 2017, slightly accelerating from the 0.6 per cent. observed in 2016 (and compared to 0.5 per cent. in 2015 and -0.3 per cent. in 2014), with core inflation (excluding energy, food and tobacco prices) at 1.1 per cent. in 2017 (compared to 0.7 per cent. in 2016).

The year 2017 in Portugal was marked by a strong decrease in the country risk, reflected by the reduction of the spread of 10-year Portuguese bonds. The GDP in 2016 grew 1.6 per cent., which was more than expected, and the unemployment rate (11.1 per cent.) fell more than anticipated, with better prospects for meeting the budget targets. The deficit in 2016, -2.0 per cent. of GDP, was the lowest recorded in the democratic history of Portugal, with the exception of a deficit of -1.0 per cent. of GDP in 1974. Other favourable developments contributed to the reduction of the risk of the country during 2017, such as the country'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 December 2017, Fitch increased its rating to two levels above "junk" maintaining the positive outlook.

The Portuguese economy's current situation continues to reveal some risks related to fiscal consolidation and the lack of availability of credit. These risks continue to limit the financing of well-established companies in the country, although less than before. Nevertheless, these risks may negatively impact the Issuer's operations, business and financial condition.

The Issuer cannot foresee what impact any economic or related fiscal developments and policies or other additional measures may have on the Portuguese economy, and CEMG's activity and performance.

Legislation for the protection of borrowers in a very difficult financial condition

Legislation that intended to protect borrowers of residential mortgage loans that were in a very difficult financial condition was enacted in 2012, namely Law no. 58/2012, of 9 November (further amended by Law no. 58/2014, of 25 August).

This legislation required credit institutions to adopt protective measures mainly in relation to residential mortgage loans' borrowers of low income households in which one of the members was unemployed or whose gross annual income had suffered a reduction of 35 per cent. or more. The adoption of measures aimed at protecting this type of borrower was in some circumstances mandatory for the credit institutions. These measures included, *inter alia*, alternative repayment arrangements, postponement of instalment payments and the extension of the mortgage loan's term.

This law expired on 31 December 2015, but the Issuer is not in a position to anticipate whether the Portuguese Government will approve a new law to replace it, which could have a negative impact on the mortgage credit portfolio of the Issuer, since it would aim at safeguarding the position of certain borrowers facing serious financial difficulties.

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

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

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

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

The Issuer has implemented the PARI, which includes new rules, procedures and measures which allow for:

- Early detections of signs of delinquency risk, implementing systems to identify default risk;
- Monitoring of borrowers who report financial difficulties;
- The adoption of measures to prevent arrears;
- Assessment of any evidence of default risk;
- Proposals for repayment solutions whenever the risk of failure is caused by temporary and specific circumstances;
- Evaluation of the financial capacity of the client; and
- Proposals for restructuring or consolidation of credit agreements in cases where the risk of default is assumed to be permanent.

The Issuer has also created PERSI, with several measures intended to automatically detect customers in default and propose timely contractual changes and restructurings, including:

- The notification of customer arrears and amounts due to the borrower and guarantors;
- Registration of the reasons for non-compliance and assessment of the financial capacity of the client;
- Reporting clients about the evaluation of failure; and
- Proposals of contractual remedies adequate to the borrower's financial situation.

Under PERSI, as a general rule, credit institutions may not declare anticipated maturity or take any legal action before ninety days from the moment the customer is under PERSI, which may only occur if the customer failed to meet payment obligations when due. Therefore, PERSI may have a negative impact on the recovery of the loans in default.

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

Legislation on calculation of default interest

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

Some of the provisions described in the preceding paragraph limit the rights of the Issuer, as well as credit institutions generally, in connection with a default of their clients, hence having a negative impact on the Issuer's business, financial condition and results.

Bank of Portugal guidelines on the implications of a negative EURIBOR

The Bank of Portugal has issued guidelines (*carta circular*) no. 26/2015/DSC, which address the matter of how the negative Euribor shall be reflected in existing finance agreements whose interest rate is calculated based on Euribor.

In those guidelines, the Bank of Portugal has disclosed the following understanding: (i) in relation to existing financing agreements which have not contemplated a regime applying in a scenario of negative Euribor, the credit institutions shall not construe their clauses as implicitly entitling them to limit the effects of such negative Euribor; (ii) in the future, credit institutions are prohibited from setting forth any floors in contracts entered into with the clients, with a view to limit the effects of negative Euribor in the contractual interest rate; and (iii) nonetheless, credit institutions and their counterparties under the agreements are allowed to take certain (not defined in detail) precautionary measures in order to address the risk of negative Euribor.

The Bank of Portugal's guidelines are not mandatory in nature, however, they are usually followed by all regulated credit and financial entities, including in relation to all credit and financing agreements with consumers or other banking customers, including mortgage loans, financial leasing and factoring, being also likely to influence the decisions of courts.

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

If the above-mentioned guidelines are upheld by the courts or followed by the Issuer, they 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, financial condition and results.

Regulation of Portuguese Financial Industry on Prudential Matters

The Issuer operates in a highly regulated industry. The banking activities of the Issuer are subject to extensive regulation by the Bank of 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**").

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

2005, the majority of the Portuguese financial sector, representing more than 84 per cent. of total liquid assets, adopted the IAS/IFRS accounting rules.

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

The new 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.

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

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

During 2009 and 2010, the following Directives were implemented: (i) Directive 2007/44/EC, amending several Directives regarding procedural rules and evaluation criteria for the prudential assessment of acquisitions and increased holdings in the financial sector; (ii) Directive 2009/27/EC (amending certain Annexes to Directive 2006/49/EC) regarding technical provisions concerning risk management; and (iii) Directive 2009/111/EC regarding banks affiliated with central institutions, certain own funds items, heightened exposure, supervisory arrangements and crisis management.

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

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

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

In Portugal, as a consequence of the financial and sovereign crisis and the FAP, the national authorities in April 2011 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 the Bank of Portugal, to draw up a Funding & Capital Plan ("**FCP**") and to update this regularly. Regarding the system's liquidity, the Bank of Portugal has promoted an orderly deleveraging of the banking sector and reduction of the banks' funding from the ECB aimed at more stable and sustainable funding models in the long term. Regarding solvency, since 2010 the Bank of Portugal has adopted several measures towards preserving adequate capital ratios, which included recommending the sale of assets, imposing capital increases, limiting the distribution of dividends and setting more stringent capital requirements, which anticipated some of the main Basel III recommendations.

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

To ensure a smooth transition to the new Basel III rules, instruments that do not meet the new rules have to be 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.

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

With reference to liquidity risks, the Basel III recommendations transposed into CRD IV imply the implementation of the liquidity coverage ratios known as Liquidity Coverage Ratio ("**LCR**") (short term ratio in a severe stress scenario) and Net Stable Funding Ratio ("**NSFR**") (medium term). The LCR was introduced gradually starting from October 2015 with a minimum level of 60 per cent. and was fully implemented in January 2018 comprising the minimum required rate of 100 per cent., one year earlier than the Basel Committee had recommended. The NSFR (minimum of 100 per cent.) was to be implemented in 2018 but this date has recently been postponed to 2020. As at 31 December 2017, the Issuer's LCR stood at 153.4 per cent. (106.6 per cent. as at 31 December 2016), above the minimum 80 per cent. required level.

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

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.

These changes may have a negative impact on the Issuer's results of operations, business and financial condition.

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

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

- A capital conservation buffer of 2.5 per cent. of risk-weighted assets;
- Countercyclical capital buffer rate between 0 and 2.5 per cent. of Core Tier 1 assets, pursuant to the conditions to be established by the competent authorities; and
- Systemic risk buffer: i) applicable to the institutions with a global systemic importance: between 1 and 3.5 per cent.; ii) applicable to other institutions with a systemic importance ("**O-SII**"): between 0 and 2 per cent.; and iii) macroprudential systemic risk: between 1 and 3 per cent. or between 3 and 5 per cent. depending on the economic outlook. The Issuer has been classified as an O-SII.

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

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

In December 2013, the Bank of Portugal determined a minimum Common Equity Tier 1 ("**CET1**") ratio of 7.0 per cent. calculated with transitional arrangements to be complied with from the 1 January 2014 onwards (Regulatory Notice (*Aviso*) 6/2013).

In September 2015, the Bank of 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, the Bank of Portugal issued Notice 6/2016 revoking Notice 1/2015, which determined the conservation buffer to be 0.625 per cent. in 2016 with an increase of 0.625 per cent. per year until 2019. At its most recent revision, on 21 December 2017, the Bank of Portugal also determined a countercyclical capital buffer rate of 0 per cent. In a decision on 30 November 2017, the Bank of Portugal determined a systemic risk buffer for CEMG of 0.063 per cent., 0.125 per cent., 0.188 per cent. and 0.250 per cent. to be accomplished by 1 January 2018, 2019, 2020 and 2021, respectively. See further "*Issuer as an O-SII*" below.

As at the date of this Base Prospectus, CEMG's minimum capital ratios 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 Supervisory Review and Evaluation Process ("**SREP**"), the Bank of Portugal determined for CEMG an additional 3 per cent. Pillar 2 requirement to be met from 1 July 2018 onwards, on a consolidated basis. Including the applicable buffers, CEMG will be required to comply with the capital ratios requirements (on a consolidated basis and on a phasing-in basis) of 9.4 per cent. for CET1, 10.9 per cent. for Tier 1 and 12.9 per cent. for Total Capital from 1 July 2018.

As at 31 December 2017, the Total Capital ratio of the Issuer, on a consolidated basis (phasing-in), stood at 13.3 per cent. (10.9 per cent. as at 31 December 2016) and the CET1 ratio was 13.2 per cent. (10.4 per cent. as at 31 December 2016). Considering the full implementation of CRD IV/CRR, as at 31 December 2017, the Total Capital ratio stood at 11.9 per cent. (8.2 per cent. as at 31 December 2016) and CET1 was 11.6 per cent. (7.6 per cent. as at 31 December 2016).

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

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

Such proposal amends the following pieces of legislation:

a) the CRR and the CRD IV which were 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**") which were adopted in 2014 and which spell out the rules on the recovery and resolution of failing institutions and establish the Single Resolution Mechanism.

Such proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process.

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

The Issuer has adopted strategic guidelines for the period 2016-2018 for the strengthening of the capital ratios, as stated in the FCP submitted to the Bank of Portugal. This plan aims to achieve capital buffers that allow capital ratios to be set in excess of the CRR and CRD IV by 2018. See *Description of the Issuer – 2017 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, financial condition and results.

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 the Bank of Portugal to the ECB's regulations and recommendations may harden its stance in certain areas, such as capital requirements and acceleration of Non-performing Loan ("**NPL**") disposals, which may, in turn, have an adverse impact on the Issuer and/or the Group's results and financial position.

It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which Issuer conducts its business, the products and services it can offer and the value of its assets.

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. Nonetheless, in 2017 the Portuguese banking system witnessed a steady reestablishment of the profitability of recurrent nature reflecting a significant reduction in the flow of impairments, particularly in the last quarter, and an increase in total operating income.

Despite the progress made recently, 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.

Regulators monitoring the activity of the Issuer

The Issuer is subject to supervision by the Bank of Portugal and 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.

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

A potential further alignment by the Bank of 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, financial condition and results.

Legislation on Bank Recovery and Resolution

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

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

Notice of the Bank of Portugal (*Aviso*) no. 1/2015, of 7 September, was revoked by Notice of the Bank of Portugal (*Aviso*) no. 6/2016, of 31 May, which regulated the implementation of the capital conservation buffer established in Article 138-D of the RGICSF, approved by Decree-Law no. 298/92, of 31 December, which is aimed at making financial institutions more resilient, by increasing their capacity to absorb unexpected losses, thus contributing to the maintenance of financial stability.

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

The SRM Regulation, subject to some exceptions, applied from 1 January 2016. The SRB is fully operational from January 2016. The BRRD has been implemented in Portugal pursuant to the European Union (Bank Recovery and Resolution) Regulations 2015 (the "**BRRD Regulations**").

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

Banks subject to the BRRD may be required to contribute to *ex ante* funds and in particular to the European Resolution Fund. The periodic contributions of the participating institutions in the European Resolution Fund should be (i) distributed proportionally among participating institutions, according to the respective level of financial liabilities, excluding own funds and deducting deposits guaranteed by the Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) (the "**Reserve Base**"), adjusted by the institution's risk profile and regarding the economic outlook as well as the contribution's impact in the institution; and (ii) determined by the application of a contributory rate (proposed by the European Resolution Fund and established by the Bank of Portugal) to the

Reserve Base. The Fund will be built up during 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 the use of the Fund, additional *ex post* contributions should be collected, which, therefore, may have adverse effects on the Issuer's results, business activity and financial condition.

The reorganisation regime previously in force that governed credit institutions was extensively reviewed and was replaced with a new approach by the Bank of 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 the Bank of Portugal: preparatory and preventive measures, prior supervision intervention and instruments and powers of resolution. The implementation of these measures and the exercise of these powers will directly affect the rights of shareholders and creditors.

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

Within the scope of preventive interventions, the Bank of Portugal has been given powers to prohibit the distribution of dividends to shareholders, to replace managers or directors and to require credit institutions to transfer assets that constitute an excessive or undesirable risk to the soundness of the institution. These actions may have a direct effect on 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 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 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 the Bank of 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 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 lower than its liabilities; (iii) the institution is unable to meet its obligations; (iv) the institution is in need of extraordinary public funding, save when such assistance is aimed at preventing or containing a serious economic crisis and preserve financial stability and fulfils certain other criteria (Article 145-E of RGICSF).

There are four types of resolution measures (Article 145-E of RGICSF), namely: (i) the total or partial sale of the assets, liabilities, off-balance items and assets under management, as well as shares representing the share capital of the distressed financial institution to one or more financial institutions 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 the Bank of 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 (which could include the Notes) of a failing financial institution and/or to convert certain debt claims (which could include the Notes) 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, the Bank of Portugal is also entitled to adopt, individually or jointly with the above mentioned resolution measures, other measures aimed at reducing or eliminating the insufficiency of own funds in the credit institution, including (a) reduction of its share capital (amortisation or reduction nominal value of shares); (b) removal of nominal value of shares; (c) reduction of nominal value of credits attached to other financial instruments or contracts which are eligible for own funds purposes according to the legislation and regulation in force; and (d) increase of share capital via 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, the Bank of Portugal shall abide by the rules on creditors ranking set forth in the Portuguese Insolvency Code, thus not being allowed to affect a class of creditors which rank above another class that are not wholly or substantially affected.

Furthermore, to the extent necessary to ensure the effectiveness of a resolution measure, the Bank of Portugal may exercise, *inter alia*, the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution; (v) exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to debt instruments and other eligible claims held *vis-à-vis* the institution, such as clauses on maturity dates and payable interest, including the Notes; (vii) liquidation and termination of financial agreements and derivative agreements; and (viii) suspension of the negotiation of a financial instrument (Article 145-AB of RGICSF).

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

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

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

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

The Issuer's pro rata share in the Resolution Fund will vary, 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 Deposit Guarantee Fund may also provide financial assistance for the implementation of resolution measures, but only in the case of the transfer of deposits placed with the institution in distress to another credit institution authorised to take deposits or to a bridge bank, and only to the amount needed to cover the difference between the amount of covered deposits and the value of the assets sold or transferred. Moreover, funding by the Deposit Guarantee Fund shall in no circumstances exceed the cost of a direct reimbursement to the depositors.

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

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

(a) require the full transfer of all the assets, liabilities and off balance sheet items of the Issuer, in which case the whole of the rights and obligations under the Programme (including the Programme documents) and (subject to any bail-in measures) any Notes shall be transferred to another duly licensed entity or a bridge institution or segregated and transferred to an asset management vehicle;

(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) and (subject to any bail-in measures) any Notes remain as a liability of the Issuer: in such instance, depending on the financial condition and other factors relating to the Issuer, the Bank of 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: the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include the Notes) of a failing financial institution or its holding company, to convert certain debt claims (which could be amounts payable under the Notes) into another security, including ordinary shares of the surviving entity, if any and/or to amend or alter the terms of such claims, including the maturity of the Notes or amendment of the amount of interest payable on the Notes, 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 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 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.

These proposals and/or requirements could have an adverse effect on the business, financial condition and results of operations of CEMG.

Basel Committee: potential impact of Basel IV requirements

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

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 resolution measure applied to Banco Espírito Santo S.A. (BES)

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

The share capital of Novo Banco in the amount of €4.9 billion was fully underwritten by the Resolution Fund. Of this, €3.9 billion come from a loan granted by the Portuguese State to be repaid by the Resolution Fund. The remaining amount was funded by the own funds of the Resolution Fund and from loans granted by the credit institutions participating in the Resolution Fund, including the Issuer, in the total amount of €700 million. The Issuer's share of this loan was €70 million.

On 29 December 2015, the Bank of Portugal approved a number of decisions that completed the resolution measure applied to BES.

The Bank of Portugal decided to confer again on BES the responsibility for certain issues of non-subordinated bonds that had been initially transferred to Novo Banco.

There is no estimate on the amount of potential losses arising from the potential litigations associated with the resolution decision. According to publicly available information, the volume of litigation associated with this process is high, and the amount of losses the Resolution Fund may incur as a result of litigation has not been disclosed. It is impossible to predict the extent of potential consequences to the Issuer arising therefrom; an adverse outcome might negatively affect the Issuer's results, business activity and financial condition.

The Issuer's share in the Resolution Fund will vary from time to time, and may increase, according to its own liabilities and funds.

The Bank of 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 contributive rate to the end of month outstanding balance of liabilities, deducted by own funds and deposits already included in the Deposit Guarantee Fund.

The rate to be applied is set by a regulatory instruction (*Instrução*) issued by the Bank of Portugal. The rate was 0.02 per cent. in 2016, 0.0291 per cent. in 2017 and 0.0459 per cent. in 2018, as defined in instruction 19/2015, instruction 21/2016 and instruction 20/2017, respectively, issued by the Bank of Portugal.

Pursuant to Decree-Law 24/2013, of 19 February, which establishes the calculation method of the initial, periodic and special contributions of the participating institutions to the Resolution Fund, the Issuer estimates, as at 31 December 2016, that its participation in the Resolution Fund should be around 9 per cent. This is an estimation only as the determination of the exact participation is influenced by a number of factors which render impossible a more accurate estimate. The participation of the Issuer in the €700 million loan corresponded to 10 per cent.

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.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of €3.9 billion originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialisation of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

On 21 March 2017, the Resolution Fund announced the completion of an amendment agreement between the parties to the 2014 Portuguese State loan, the 2015 Portuguese State loan and the Participants' loan (the "**Loans**") whereby (i) the maturity dates of the Loans have been extended to 31 December 2046, the date on which the Resolution Fund is required to pay the full principal amount of the Loans, (ii) the parties have agreed that the new maturity dates of the Loans would be further adjusted in the future to the extent required to ensure that the Resolution Fund would be able to perform its payment obligations under the Loans based only on the proceeds from the regular revenues of the Resolution Fund, (iii) the parties have further agreed that the Loans would rank *pari passu* without any preference among themselves and (iv) the Resolution Fund has undertaken that, before the full payment of any amounts due and payable in respect of the Loans, it would not make any payments of principal or interest under any other loans obtained by it after 31 December 2016 to fund any contingent liabilities arising in connection with the resolution measures applied to BES and Banco Internacional do Funchal, S.A. ("**Banif**"). A press release confirming completion of this amendment agreement was also published by the Ministry of Finance on the same date.

On 20 February 2017, the Bank of 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. The Bank of 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, Bank of Portugal announced that a share purchase and subscription agreement relating to the share capital of Novo Banco was entered into between the Resolution Fund and Lone Star Fund, which was pending the completion on the compliance with several conditions precedent.

The sale of 75 per cent. of capital share of Novo Banco to Lone Star Fund was completed on 18 October 2017, with the remaining 25 per cent. of share capital being owned by the Resolution Fund. The sale contract imposes some obligations on the buyer, namely concerning the capitalisation and the liquidity of Novo Banco, either by capital increase or by debt issuance, to be accomplished in the next few years.

In this context, the Issuer cannot anticipate the effects on the Resolution Fund arising from: (i) the partial sale of Novo Banco shareholding to Lone Star; (ii) the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into liquidation; (iii) additional liabilities or contingencies for Novo Banco that have to be neutralised by the Resolution

Fund; (iv) legal proceedings against the Resolution Fund, including the so-called "Bad Bank" (BES process); and (v) the guarantee given to the bonds issued by Oitante, S.A.

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, particularly during a period of significant organisational transformation. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands increases the regulatory risk of the Issuer. These may also impact significantly on the Issuer's future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

The resolution measure applied to BES may prejudice investors' and economic agents' positive perception of the Portuguese financial system and the Issuer as a participant thereto.

The resolution measure applied to Banif

On 20 December 2015, the Bank of Portugal applied a resolution measure to Banif which notably resulted in the acquisition by Banco Santander Totta, S.A. of a set of rights and obligations, that constituted assets, liabilities, off balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect. This operation involved an estimated public support of €2,255 million to cover future contingencies, of which €489 million are supported by the Resolution Fund and €1,766 million directly by the Portuguese State, as a result of the definition of the assets, liabilities, off balance sheet items and assets under the management of Banif perimeter agreed by and between the Portuguese and European authorities and Banco Santander Totta, S.A. to be sold in this context.

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

The resolution measure applied to Banif may prejudice investors' and economic agents' positive perception of the Portuguese financial system and the Issuer as a participant thereto.

Issuer as an O-SII

On 29 July 2016, and as subsequently confirmed on 30 November 2016, the Bank of Portugal 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 Bank of Portugal has taken this decision after having duly notified ECB, under Article 5 of Council Regulation (EU) No 1024/2013 of 15 October 2013, and after having also consulted the National Council of Financial Supervisors, under Article 2 (3) (c) of Decree-Law no. 143/2013, of 18 October.

The application of a two-year phase-in regime of the O-SII buffer 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 2017, the Bank of 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 the Bank of Portugal's powers as national macroprudential authority. For this purpose, the Bank of 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.

As set out in the legal and regulatory provisions, the Bank of Portugal published the table with the names of the banking groups identified as O-SIIs in 2017 and the respective capital buffers as a percentage of the total risk exposure amount. These 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 0.063 per cent. as at 1 January 2018, 0.125 per cent. as at 1 January 2019, 0.188 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 Bank of Portugal has kept unchanged both the methodology and the O-SII capital buffer levels, but has 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 remain very low.

The most important challenges are:

(i) the need of banks 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 need of banking groups 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.

Capital requirements are calculated in accordance with the gross exposures net of specific provisions – i.e. net exposure. The adoption of IFRS 9 is expected to increase the losses associated with individual assets, therefore net exposure and capital requirements will decrease. However, this reduction in capital requirements will be offset in capital by the one-for-one deductions from the increase in impairment losses under IFRS 9. The capital impact assessment of the IFRS 9 adoption (phased-in) will be a reduction in CET1 of approximately 0.06 percentage points as at 1 January 2018. If the Group had chosen the alternative option (fully implemented), the impact would have been a reduction in CET1 of 0.95 percentage points as at 31 January 2018.

Reliance on Montepio Geral Associação Mutualista as equity provider

CEMG was established by Montepio Geral Associação Mutualista ("**MGAM**") in 1844, as an affiliated entity (*entidade anexa*) of MGAM, aiming 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.

CEMG is a credit institution of the savings bank type operating in the social economy that takes the form of a public limited liability company and which is governed by the applicable legal provisions and its Articles of Association. MGAM is the sole shareholder of CEMG, pursuant to article 6 no. 2 of the Savings Banks Law. As such, all of the 625,419 members of MGAM (as at 31 December 2017) are CEMG's customers, corresponding to 46 per cent. of the Issuer's individuals customer base.

Following CEMG's transformation into a public limited liability company (please refer to section "*Change in legal framework of the Issuer*" below), concluded on 14 September 2017, other potential shareholders may participate in

CEMG's capital. Presently, CEMG continues to rely on MGAM as an exclusive equity provider, which owns 100 per cent. of CEMG's total share capital of €2,420,000,000.

If MGAM is not in a position to capitalise CEMG and/or the entry of other shareholders in CEMG's capital is not sufficient to overcome capital requirements of CEMG, the occurrence of any of these events may have a material adverse effect on the Issuer's condition, the ability to pursue its business and results of its operations.

MGAM's main source of funds is membership revenues and the subscribed members' savings plans. These funds are invested by MGAM in a diversified set of financial and non-financial assets, including different types of securities and equity participations (including its interest in CEMG) and real estate. Among these investments, and as at 31 December 2017, MGAM held €386.3 million of notes issued by CEMG, which represents approximately 2.1 per cent. of CEMG's liabilities.

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

Montepio Geral Associação Mutualista may cease to own 100 per cent. of the Issuer's share capital

MGAM is considering the option of a social economy organisation or organisations becoming shareholder(s) of CEMG. On 30 June 2017, MGAM disclosed the terms of a Memorandum of Understanding ("**MoU**") signed with *Santa Casa da Misericórdia de Lisboa* (a non-profit Portuguese organisation, operating under the strict control of the Portuguese Government, which has the mandate to finance causes in the public interest).

More recently, MGAM has announced the intention of having other institutions of the so-called social economy (*economia social*) (i.e. charities (*misericórdias*) or beneficence institutions) entering into CEMG's share capital with a minor participation.

As far as the Issuer is aware, it is not certain how these institutions will enter into CEMG's share capital and to what extent within the defined threshold.

The Issuer cannot predict the negative consequences, if any, that may arise from MGAM's ceasing to own 100 per cent. of the Issuer's share capital and corresponding voting rights.

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

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

As a consequence of the revision in course of the Mutual Associations Code (*Código das Associações Mutualistas*) MGAM may become subject to the supervision of the ASF.

In this scenario, the Issuer cannot predict how future supervision rules may affect MGAM's relationship with the Issuer. Notwithstanding the foregoing, the imposition of concentration ratios to MGAM could lead to the sale of a participation in the Issuer's capital to third parties. Such a sale has become possible because the Issuer has since 14 September 2017 become a Portuguese public limited liability company (*sociedade anónima*), which allows for its shares to be sold off by MGAM.

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

Impact of regulatory changes

The Issuer is subject to financial services laws, regulations, administrative actions and policies in each location where it operates. Changes in supervision and regulation, in particular in Portugal, could materially affect the Issuer's business, the products and services it offers or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

Regulators' audit

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

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

The Issuer is subject to compliance risk, which may lead to claims of non-compliance with regulations and lawsuits by regulatory agencies, in particular the Bank of Portugal, CMVM, and other parties

The Issuer is subject to financial services laws, regulations, administrative actions and policies in each location where it operates. Therefore, it is subject to claims of non-compliance with regulations and lawsuits by regulatory agencies, in particular the Bank of Portugal and the CMVM, and other parties.

CEMG's regulators, in particular the Bank of Portugal and the CMVM, frequently conduct inspections and request information in respect of CEMG's or its clients' activities and transactions. Any inspections or other proceedings that are unfavourable to CEMG may result in sanctions, limitations on its business opportunities, or a reduction of its growth potential, and may have an adverse effect on CEMG's ability to comply with certain contractual obligations or retain certain commercial relationships.

CEMG is also subject to rules and regulations related to the prevention of money laundering, bribery and terrorism financing. Compliance with anti-money laundering ("**AML**"), anti-bribery and counter-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational outcomes and negative effects in CEMG's relationship with its clients, partners, service providers and other third parties. Although CEMG believes that its current AML, anti-bribery and counterterrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, CEMG cannot guarantee that it has in the past or will comply, at all times, with all applicable rules or that its regulations for fighting money laundering, bribery and terrorism financing are duly applied by its employees under all circumstances.

In November 2016, CEMG was notified by the Bank of Portugal of an accusation under an administrative proceeding related to alleged violations of certain AML procedures (administrative proceeding (*processo de contraordenação*) no. 84/14/CO). This administrative proceeding relates to events that occurred prior to 12 August 2016 and concerns alleged non-compliance by CEMG of certain duties pertaining to the implementation of certain required mechanisms to allow for: the identification of the property and control of property and control of legal entities; origin of funds; information update relating with banking entities; extension to affiliates of measures equivalent to those foreseen in Law no. 25/2008; system parameters for high risk operations; information report to *Procuradoria Geral da República* of operations potentially related to AML. CEMG presented its defence in January 2017.

An unfavourable decision in the administrative proceedings brought against the Issuer by the Bank of Portugal may have reputational risks which could result in material adverse consequences on the Issuer's financial condition.

European Central Bank – Single Supervisory Mechanism

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

The SSM may apply to the Issuer, if the Issuer is considered of significant relevance with regard to the Portuguese domestic economy and should therefore be supervised by the ECB, or is considered within the scope of less significant institutions (“**LSIs**”) specified in a framework adopted and published by the ECB in consultation with NCAs.

Change in legal framework of the Issuer

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

In relation to full service savings banks, the Savings Banks Act further requires that the majority of the share capital or voting rights thereof are held by the respective owner institutions. Those owner institutions may only be mutual associations (as it is the case, in relation to the Issuer, of MGAM), charities (*misericórdias*) or beneficence institutions.

Insofar as the governing bodies of full service savings banks (*caixas económicas bancárias*) are concerned, it is expressly determined that the Portuguese Companies Code will apply. The Savings Banks Act further requires that the management and supervisory boards of full service savings banks are separate and independent from their respective owner institution, specifically prohibiting ex officio appointments. As to the separation and independence of the Issuer’s management and supervisory boards and the related governing bodies of its owner, MGAM, please refer to the section headed “*Board of Directors and other Governing and Corporate Bodies of the Issuer*”).

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

An Extraordinary General Meeting of CEMG was convened for 22 November 2016, to deliberate on the transformation of CEMG into a public limited liability company and the consequent amendment of its Articles of Association.

The General Meeting was held on the referred date, within the scope of a determination from the Bank of Portugal, dated as at 21 November 2016, pursuant to which CEMG should be transformed into a public limited liability company in accordance with number 2 of article 6 of Decree-Law no. 190/2015 of 10 September, which approved the regulatory framework of the Savings Banks (*Regime Jurídico das Caixas Económicas*).

The participants in the Extraordinary General Meeting approved by majority to transform CEMG into a public limited liability company 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 the Bank of Portugal’s determination to make compulsory the transformation of CEMG from a savings bank annexed to MGAM into a full service savings bank (*caixa económica bancária*) was acknowledged, adopting the form of a public limited liability company, such determination was accepted without reservations, and therefore the General Meeting agreed to the said transformation. In addition, it was approved that CEMG should take all the necessary procedures to ensure the fulfilment of the aforementioned determination.

These resolutions were later ratified at the Extraordinary General Meeting of MGAM, under the provisions of article 6 no. 4 g) of Decree-Law no. 190/2015 of 10 September, combined with articles 33 and 32 from CEMG's Articles of Association and articles 23 no. 1, 1b) and 2, article 25 g) from MGAM' Articles of Association.

This Extraordinary General Meeting of MGAM was suspended and resumed on 6 January 2017.

The results of the Extraordinary General Meeting (resumed on 6 January 2017) were as follows:

1. recommendations of the Bank of Portugal were included for the modification of the Issuer's new Articles of Association, which was approved, by majority, at the General Meeting held on 22 November 2016; and
2. it was resolved, with only one abstention vote, that the Executive Board of Directors of the Issuer should formalise the process of its transformation into a public limited liability company.

An Extraordinary General Meeting of CEMG was convened on 4 April 2017. At this Extraordinary General Meeting the following proposals were approved:

1. the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association, on their exact terms as agreed and previously approved by the Bank of Portugal, and the related approval of the Issuer's transformation into a public limited liability company;
2. the Executive Board of Directors of the Issuer should carry out all the necessary actions towards the implementation of the said transformation of the Issuer into a public limited liability company, without prejudice to the assignments granted to MGAM; and
3. to request from MGAM, through its Board of Directors, the necessary cooperation towards the expeditious completion of the ratification of the resolution to transform the Issuer into a public limited liability company.

On the same date, the Issuer further informed that:

1. the Bank of Portugal had given a favourable opinion regarding the compliance of the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (*caixa económica bancária*) into a public limited liability company, as had been proposed by the Issuer's Executive Board of Directors; and
2. the Bank of Portugal had approved the amendments to CEMG's draft Articles of Association arising from the aforementioned transformation.

The effectiveness of the resolutions approved in the Extraordinary General Meeting regarding the transformation into a public limited liability company 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, CEMG'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, CEMG's total share capital, in the amount of €2,420,000,000 is now fully represented by ordinary shares.

MGAM owns 100 per cent. of the total share capital of CEMG, following the tender offer announced on 4 July 2017 and the subsequent permanent order effective from 15 September 2017 to buy the outstanding shares.

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

If the amendment of CEMG's current legal framework into a public limited liability company is not in line with the expectations of the market, investors and clients, it may have a material adverse effect on the Issuer's financial condition, ability to pursue its business and results of its operations.

Other than as stated above, the Issuer is not in a position to anticipate, or to make any assessment of, the implications, adverse or not, that may arise for itself, for the owners of its share capital, for the holders of the Notes and for its creditors generally as a result of its conversion into a public limited liability company, or of the need to comply with any other aspects of the new legislation.

International Activity

The international activity of the CEMG Group is carried out by the subsidiaries Finibanco Angola, S.A. ("**Finibanco Angola**"), Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and BTM – Banco Terra, S.A. ("**BTM**") in Mozambique.

Finibanco Angola, which is 81.37 per cent. held by CEMG, is a universal bank that supports small and medium-sized companies, individuals and Angolan foreign trade which seeks competitive advantage on the quality of its service with a view to achieving high customer satisfaction indices. Under this strategy, it seeks to finance and promote people and micro-enterprises with viable business initiatives and conditions of sustainability that would otherwise not have access to credit. In its support to Angolan foreign trade, CEMG favours transactions between Portugal and Angola, seeking to establish a bridge between Portuguese and Angolan entrepreneurs.

BTM, which is controlled by CEMG through a 45.78 per cent. stake in its share capital, is a commercial bank whose objective is to offer financial solutions in the retail and business areas, having been created for the purpose of contributing to poverty reduction in Mozambique. Under its strategy, BTM established a Public-Private Partnership aimed at providing the rural and suburban population in Mozambique with access to financial services in a feasible and sustainable way.

Banco MG Cabo Verde, S.A., which is 100 per cent. held by CEMG, proposes, with its specialised offer of products and services, to offer its customers, whether individual, institutional or companies with an international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions. The international dimension of Banco MG Cabo Verde, S.A. is sustained by the geographic dispersion of its customers, spread over various countries, in various continents.

The total assets of international activity of the CEMG Group's international business as at 31 December 2017 corresponded to €707.8 million, compared to €740.0 million as at 31 December 2016 (for comparative purposes, the 2016 and 2017 financial statements of Finibanco Angola and BTM were converted using the same exchange rates: AOA / EUR 185.400; MZN / EUR 70.377), which amounted to 3.5 per cent. of the total net assets as at 31 December 2016 and 2017.

The operation of Finibanco Angola accounts for approximately 2.1 per cent. of the Issuer's consolidated net assets, as at 31 December 2017 (2.0 per cent. as at 31 December 2016), and contributed to the consolidated results as at 31 December 2017 with €5.9 million (€7.3 million as at 31 December 2016). The Issuer's operation in Angola, through Finibanco Angola, is exposed to the risk of adverse political, governmental or economic developments in Angola.

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

Angola's GDP and exports depend greatly on oil market, and the sharp decline in oil price 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.

Angola struggles with high inflation (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.

Elections in August 2017 brought the first change of president in 38 years. Since the end of the war in 2002, Angola has made great economic and political progress, although it still faces massive development challenges, as the reduction of its dependency on oil and the diversification of the economy; improving its infrastructure; and enhancing governance, public financial management systems, human development indicators, and the living conditions of the population.

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

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 results of operations.

Sovereign Debt and Sovereign Risk

Despite a strong improvement in the interest of international investors in Portuguese sovereign debt, as evidenced by the narrowing of the spread between the respective yield and those of the 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 possibility of failure to meet fiscal targets, combined with uncertainty regarding the long-term growth potential of the domestic economy may result in a deterioration in the sovereign risk premium for Portuguese public debt securities in access to the secondary debt markets and access of the Portuguese Republic to primary debt markets. Such risk could be exacerbated by a reduced confidence in international financial markets or be triggered by a weak performance of the domestic economy or disturbances in the local political environment.

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

The Issuer maintains trading and investment positions in debt securities, foreign exchange, equity and other markets. The most relevant exposure of the Issuer is in relation to Portuguese sovereign debt, comprised in its own portfolio. As at 31 December 2017, the exposure of the Issuer to Portuguese sovereign debt was of around €743.7

million, being €28.3 million in the trading portfolio and €715.4 million in the assets available for sale. These positions could be adversely affected by volatility in Portuguese sovereign debt creating a risk of substantial losses.

As at 31 December 2017, the trading and investment portfolios of fixed income securities, namely in Portuguese public debt, had increased to €73.4 million from €3.2 million as at 31 December 2016. There is a risk that these capital gains may not be repeated in the future or even losses may be recognised in the next quarters if market appetite for Portuguese securities turns subdued compared to other peripheral economies.

Real Estate market

The Issuer is exposed to a contraction of the real estate market given its high exposure to the Portuguese real estate market through mortgage loans, loans granted to construction companies, assets obtained in lieu of payment (the Non-current Assets Held for Sale as disclosed in the balance sheet), properties for securing loans or related to its operations, funding of real estate development projects and through the exposure to real estate funds 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 Investment Properties in a total outstanding amount of €538.6 million as at 31 December 2017 (€608.0 million as at 31 December 2016) includes the real estate properties owned "Valor Prime – Fundo de Investimento Aberto", "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto", which are fully consolidated and the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

The Non-current Assets Held for Sale arising from recovered loans amounted to €742.2 million as at 31 December 2017 (€760.2 million as at 31 December 2016) and include buildings and other assets resulting from the foreclosure of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of the Issuer; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment prosolvency). According to the Issuer's expectation, these assets are available for sale in a period of less than one year and the Issuer has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline.

The participation units of real estate funds held in the own portfolio amounted to €213.5 million as at 31 December 2017 (€213.1 million as at 31 December 2016).

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

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

Amendment of the Tax Status of the Issuer

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

The Portuguese State Budget for 2012, approved by Law no. 64-B/2011, revoked the exemption of corporate income tax applicable to entities attached to private entities of social solidarity, with effect from January 2012. As a result, the Issuer, as an entity attached to MGAM, is currently subject to the general rules established by the Portuguese Corporate Income Tax Code.

Therefore, and based on the applicable law, the temporary differences between accounting profits and taxable income acceptable for corporate income tax purposes are eligible for the recognition of deferred tax, whenever there is a reasonable probability that said taxes will be paid or recovered in the future.

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

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

The revocation of the exemption of corporate income tax applicable to entities attached to private entities of social solidarity has had a negative impact on the profits of the Issuer since 2012.

Deferred Tax Assets Regime

In its capacity as a savings bank (*caixa económica bancária*), and before the Issuer's incorporation as a public limited liability company, the Issuer could not benefit from the Deferred Tax Asset Regime approved by Law no. 61/2014, of 26 August. This law, which approved the special regime applicable to deferred tax assets ("**DTA**") arising from the non-deduction of expenses and negative asset variations regarding impairment losses and post-employment benefits or long term benefits ("**DTA special regime**") followed the entry into force of the CRR which, *inter alia*, determined that DTAs are generally deducted from the Tier 1 capital of credit institutions, with negative implications on their capital levels as at 1 January 2014. Nevertheless, after the transformation into a public limited liability company, effective from 14 September 2017, CEMG may benefit from the DTA special regime, as decided on the Extraordinary General Meeting held on 6 July 2016 that approved the adherence to the special regime applicable to deferred tax assets, set out in Law no. 61/2014, of 26 August.

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

The DTA special regime is applicable to expenses and negative asset variations that have not been deducted from the taxable income but which were accounted in tax periods that begin on or after 1 January 2015, and to DTAs registered in the taxpayer's annual accounts of the last tax period of 2014. As at 31 December 2016, the Issuer had registered DTAs of €521.7 million and as at 31 December 2017, €466.0 million.

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

On completion of the Issuer's transformation into a public limited liability company, the formal request and application of CEMG to adhere to the special DTA regime was immediately sent to the Finance Ministry, however such approval remains outstanding and the Issuer cannot predict when it will receive a formal response.

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 financial condition, business and its results of operations.

Infrastructure Risk

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

Credit risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Issuer's 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 2017, the Issuer's total credit risk exposure was €16,506 million (gross exposure, in accordance with the prudential consolidation perimeter, including securitisation positions).

An increase in NPLs would deteriorate the Issuer's asset quality metrics and affect the planned non-performing loans reduction negatively.

Market risk

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

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

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

The most significant market risks faced by the Issuer are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios.

The Issuer's balance sheet management involves also the Assets and Liabilities Committee, where an assessment of the interest rate, exchange rate and liquidity risks is made, in particular regarding the Issuer's compliance with internal limits for the static and dynamic gaps of interest rate, exchange rate and liquidity risks (static gap meaning the difference between assets and liabilities elements of the current portfolio considering only contractual reimbursements and maturities, not taking into account projections for new business, and assuming a run-off level for current deposits; the dynamic gap also incorporates the projections for new business).

For interest rate risk measurement purposes, assets and liabilities sensitivity to interest rate changes are aggregated by time bands according to their respective repricing dates, and the balance-sheet interest rate mismatch is calculated. As at 31 December 2017, the interest rate gap was -€2,599 million compared to -€1,545 million as at 31 December 2016.

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

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

A significant downward movement in global capital markets 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, which could have a negative impact on the need to shore-up the latter and, consequently, on the Issuer's ability to allocate its net profit to the development of its business activity.

The impact of the 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 2017, a shift in interest rates by 1 percentage point would have led to a variation in the expected economic value of the bank portfolio of approximately €12.2 million, compared with -€30.5 million as at 31 December 2016.

In order to mitigate this risk, the Issuer continues to focus on the binomial liquidity/risk, which drives the investments made to be centred, predominantly, on investment-grade issuers, in sectors least exposed to the effects of the current economic crisis, a policy which has translated into the acquisition of securities which comply with ECB's eligibility criteria for Eurosystem credit operations, increasing the Issuer's on-balance sheet stored liquidity.

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. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

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 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, including its reputation, financial condition, results of operation or prospects.

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 reputation, results of operations, financial condition and prospects. 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 Issuer 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 is not adequately managed or, even if adequately managed, a cyber-attack can 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, results of operations, financial condition, prospects and its position in legal proceedings.

Liquidity risk

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

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

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

The "net credit to customers / total customer deposit" ratio decreased to 107.3 per cent. as at 31 December 2017, from 111.2 per cent. as at 31 December 2016. If Issuer's debt sold to retail clients is added to clients' total deposits (resulting in clients' total resources), the conversion ratio was, as at 31 December 2017, 92.4 per cent. (96.3 per cent. as at 31 December 2016).

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

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

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

The Issuer's core activity is retail banking, representing 55.7 per cent. of the Issuer's total liabilities as at 31 December 2017 (as opposed to 50.7 per cent. as at 31 December 2016). The progressively reduced weight of capital markets resources in the funding of the Issuer, together with a potential decrease of clients' resources, driven by highly competitive fund-raising in the retail market, may bring an adverse impact on the Issuer's liquidity.

The Issuer has been following a strategic policy of strengthening its portfolio with highly liquid securities. These assets may also be used as collateral for refinancing from ECB or from other financial institutions and therefore constitute a readily available source of liquidity.

The value of eligible assets for ECB funding decreased from €3.5 billion as at 31 December 2016 to €2.6 billion as at 31 December 2017. The Issuer had a total collateral pool available for ECB refinancing in an amount of €1.0 billion as at 31 December 2017 (€1.2 billion as at 31 December 2016).

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.

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".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Floating Rate Notes linked to or referencing a "benchmark".

Future discontinuance of LIBOR (or any other benchmark) may adversely affect the value of Floating Rate Notes or Reset Notes which reference LIBOR (or such other benchmark)

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Investors should be aware that, if LIBOR or any other benchmark (including, for example, EURIBOR) were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes or Reset Notes which reference LIBOR (or such other benchmark) will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR (or such other benchmark) rate is to be determined under the Terms and Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR (or such other benchmark) rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR (or such other benchmark) was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes or Reset Notes which reference LIBOR (or such other benchmark).

The obligations of the Issuer under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to the claims of all Senior Creditors (as defined in the Terms and Conditions) of the Issuer. Accordingly, no payments of amounts due under the Subordinated Notes will be made to the Noteholders in the event of bankruptcy or winding up of the Issuer (to the extent permitted by Portuguese law) except where all sums due from the Issuer in respect of the claims of all Senior Creditors of the Issuer are paid in full, as more fully described in Condition 2(b).

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

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 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 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, Noteholders may receive less than the full amount of principal due under the Subordinated Notes upon redemption, and the market value of the Subordinated Notes may be adversely affected.

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.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer.

The BRRD contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool and other resolution tools.

The powers provided to resolution authorities in the BRRD include write down/conversion powers to ensure that capital instruments (including Subordinated Notes) absorb losses at the point of non-viability of the issuing institution or its group. Accordingly, the BRRD contemplates that resolution authorities may require the write down of such capital instruments in full or on a permanent basis, or their conversion in full into CET1 instruments, to the extent required and up to their capacity, at the point of non-viability immediately before, or concurrently with, the application of any other resolution action, if any.

The BRRD provides, *inter alia*, that resolution authorities shall exercise the write down power of reducing or converting, according to an order of priority of credits in normal insolvency procedures, in a way that results in:

(i) CET1 instruments being written down or converted in proportion to the relevant losses; and then

(ii) the principal amount of other capital instruments (Tier 1 and Tier 2 instruments) being written down and/or converted into CET1.

On 23 November 2016, the European Commission published proposals to amend the BRRD which included a proposal extending the application of the power to write down or convert capital instruments to include eligible liabilities.

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.

See the risk factor entitled "*Legislation on Bank Recovery and Resolution*" above.

Risks related to withholding tax

Under Portuguese law, income derived from the Notes integrated in and held through Interbolsa, as management entity of the Portuguese Centralised System, *Central de Valores Mobiliários* held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-Law no. 193/2005 of 7 November (as amended, "**Decree-Law no. 193/2005**") and in force as from 1 January 2006, may benefit from an up-front withholding tax exemption, provided that certain procedures and certification requirements are complied with (see "*Taxation – Special Debt securities tax regime*"), for these procedures and certification requirements). Failure to comply with these procedures and certifications will result in the application of the Portuguese domestic withholding rate of 28 per cent., for individuals and 25 per cent. for legal persons or if applicable, in reduced withholding tax rates, pursuant to tax treaties signed by Portugal, provided that the procedures and certification requirements established by the relevant tax treaty are complied with. A withholding tax rate of 35 per cent. also applies in case of interest on investment income (*rendimentos de capitais*) paid to individuals or legal persons resident in a country, territory or region listed in Ordinance (*Portaria*) 150/2004 of 13 February 2004 (as amended) (see "*Taxation – General tax regime on debt securities*").

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 paying agents or the clearing systems assume any responsibility therefor.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

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

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 financial condition, business and its results of operations.

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.

Other Risks

The past performance of Notes or other securities issued by the Issuer may not be a reliable guide to future performance of the Notes. The value of Notes may fall as well as rise. Income or gains from Notes may fluctuate in accordance with market conditions and taxation arrangements. Other than as set out in this Base Prospectus, it may be difficult for investors in Notes to sell or realise the Notes and/or obtain reliable information about their value or the extent of the risks to which they are exposed.

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 holders of Notes during the term and on the maturity of the Notes or the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the holders of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

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

1. the annual report and audited consolidated annual financial statements of CEMG for the financial year ended 31 December 2017, together with the notes and the audit report thereon (the "**Annual Report 2017**") (available at http://web3.cmvm.pt/sdi/emitentes/docs/PC68834.pdf), including the information set out at the following pages in particular:

2017 CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT

Consolidated Balance Sheet	124
Consolidated Income Statement	123
Consolidated Statement of Cash Flows	125
Consolidated Statement of Changes in Equity.....................	126
Notes to the Consolidated Financial Statements.....................	128-313
Audit Report	516-525

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 relevant Annexes of the Commission Regulation (EC) No. 809/2004 of 29 April 2004 (the "**Prospectus Regulation**"); and

2. the annual report and audited consolidated annual financial statements of CEMG for the financial year ended 31 December 2016, together with the notes and the audit report thereon (the "**Annual Report 2016**") (available at https://www.montepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2016.pdf), including the information set out at the following pages in particular:

2016 CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT

Consolidated Balance Sheet	125
Consolidated Income Statement	124
Consolidated Statement of Cash Flows	126
Consolidated Statement of Changes in Equity.....................	127
Notes to the Consolidated Financial Statements.....................	129-325
Audit Report	551-561

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 relevant Annexes of 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. ("**CEMG**" 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 Caixa Económica Montepio Geral, caixa económica bancária, S.A. 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 Natixis 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 CEMG in favour of the holders of the Notes dated 7 June 2018 (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). Unless otherwise permitted by then current laws, regulations and directives, Subordinated Notes will have a maturity of not less than five years. Notes shall not be issued with a maturity of less than one year. 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 Directive, 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 applicable Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the applicable 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 applicable 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 applicable 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.
Optional Redemption	The 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 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 all present and future unsecured (subject as aforesaid) and unsubordinated obligations of the Issuer, save for those that have been accorded by law preferential rights.
Status of the Subordinated Notes	The Subordinated Notes will constitute direct, unsecured and subordinated obligations of the Issuer, 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 (b) in priority to (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.
Negative Pledge	Applicable to Senior Notes only. See "*Terms and Conditions of the Notes — Negative Pledge in relation to the Senior Notes*".
Cross Default	Applicable to Senior Notes only. See "*Terms and Conditions of the Notes — Events of Default*".
Limited Rights of Acceleration	A Noteholder's rights to accelerate Subordinated Notes are limited to winding up. See "*Terms and Conditions of the Notes — Events of Default*".
Ratings	The Programme has been rated: (P)B3 (senior unsecured) / (P)Caa2 (subordinated) / (P)Caa3 (junior subordinated) / NP (short-term) by Moody's, B+ (senior unsecured) / B (short-term) by Fitch and BB (senior unsecured) / B (high) (subordinated) / R-4 (short-term) by 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 tax 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, 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(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 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 and France. 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.

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 holders of Notes as amended and restated on 7 June 2018 (the "**Instrument**"), which includes the form of the Notes referred to below. An amended and restated Agency Agreement dated 7 June 2018 (as amended and/or supplemented and/or restated as at the date of issue of the Notes (the "**Issue Date**"), the "**Agency Agreement**") 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 Agreement are available for inspection during usual business hours at the registered office of the Agent (presently at Rua Aurea 219-241, 1100-062 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 applicable to them of the Agency Agreement.

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 Union or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, 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 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.

This Note is a Senior Note or a Subordinated Note as specified in the applicable Final Terms.

This Note is a Fixed Rate Note, a Reset Note, a Floating Rate Note or Zero Coupon Note, a combination of any of the foregoing or any other kind of Note, 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 Senior Notes are direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Issuer and rank and will rank at least *pari passu* among themselves and with all present and future unsecured (subject as aforesaid) and unsubordinated obligations of the Issuer, save for those that have been accorded by law preferential rights.

(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 (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.

For the purposes of this paragraph (b):

"**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 of the Issuer 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);

"**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) No Set-Off in respect of Subordinated Notes

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

3 Negative Pledge in relation to the Senior Notes

(a) Restriction

So long as any of the 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 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 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, the Calculation Agent shall request each of the 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 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 Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, 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, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 4(b)(ii), "**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.

(v) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b) 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, duties and discretions pursuant to such provisions.

(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 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 as 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.

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) 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. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(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) Definitions

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

"**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:

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

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

(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) and 4(b)(iv), 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).

"**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 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 Reset Period 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 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), 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 Reset Period; 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 Reset Period; 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.

"**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 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), 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)).

"**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.

(k) 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). Subordinated Notes will have a minimum maturity of at least five years. 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 (subject, in the case of Subordinated Notes, to the provisions of Condition 2(b) and Condition 5(i)) 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. 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(c).

Where such calculation is to be a 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 Notes may be redeemed at the option of the Issuer in whole, but not in part, (but subject to Condition 5(i) in the case of Subordinated Notes) 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, 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. Before the publication of any notice of redemption pursuant to this paragraph, 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. 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).

This Condition 5(c) shall only apply in the case of Subordinated Notes if the conditions set out in Condition 5(i) below have been satisfied.

(d) ***Redemption at the Option of the Issuer***

If Call Option is specified in the applicable Final Terms, such Call Option cannot occur earlier than five years from the relevant Issue Date in the case of Subordinated Notes (but subject, in the case of Subordinated Notes, to the provisions of Condition 5(i)), 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.

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 Change in Regulatory Capital Treatment***

Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, (but subject to Condition 5(i)) 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:

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Portugal and applicable to the Issuer, including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Relevant 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, Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (as amended from time to time));

"**Capital Event**" means the determination by the Issuer after consultation with the Relevant 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 Article 64 of the 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 amending Regulation (EU) No. 648/2012, (or any equivalent or successor provision) shall not constitute a Capital Event;

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

"**Relevant Authority**" means the Bank of Portugal, the European Central Bank or such other authority (whether in Portugal or elsewhere) having primary responsibility for prudential supervision of the Issuer.

(f) Redemption at the Option of Noteholders

If, in relation to 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.

(g) Purchases

The Issuer and any of its Subsidiaries (but subject to Condition 5(i) in the case of Subordinated Notes) 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, surrendered to the Agent for cancellation.

(h) 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.

(i) Further Provisions Applicable to Redemption and Purchases of Subordinated Notes

Notwithstanding the foregoing, the Issuer shall not be permitted to redeem or purchase any Subordinated Notes issued by it prior to the Maturity Date unless the following conditions (in each case, if and to the extent then required by Applicable Banking Regulations) are satisfied:

(i) the Issuer has given any requisite notice to the Relevant Authority and has obtained the Relevant Authority's prior permission or non-objection to the redemption or purchase (as the case may be) of the Notes;

(ii) such redemption or purchase (as the case may be) is permitted by and complies with Applicable Banking Regulations; and

(iii) in the case of any redemption of Notes pursuant to Condition 5(c) or Condition 5(e), the Issuer has demonstrated to the satisfaction of the Relevant Authority:

  (A) in the case of Condition 5(e), that the circumstances giving rise to the Capital Event were not reasonably foreseeable as at the Issue Date of the most recent Tranche of the Notes and that the change in the applicable regulatory classification is sufficiently certain; or

  (B) in the case of Condition 5(c), that 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.

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 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 his 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 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) Subordinated Notes

This Condition 7(b) shall only apply to Subordinated Notes. Notwithstanding Condition 7(a), any obligation to pay additional amounts provided for therein will be limited to payments of interest (and not, for the avoidance of doubt, to payment of principal or any other amounts) in respect of Subordinated Notes.

(c) 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) Senior Notes

In the case of Senior Notes, 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

In the case of Subordinated Notes, 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 Subordinated 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 Subordinated Notes (other than any payment obligation of the Issuer under or arising from the Instrument or the Subordinated Notes, including, without limitation, payment of any principal or interest in respect of the Subordinated 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).

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.

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(b) and 2(c) 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 Clause 5 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;
- (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;
- (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;

"**BRRD**" means Directive 2014/59/EU of 15 May establishing the framework for the recovery and resolution of credit institutions and investment firms or such other directive as may come into effect in place thereof, as implemented in Portugal, as amended or replaced from time to time and including any other relevant implementing regulatory provisions; and

"**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, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all 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 the Bank of 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 the Bank of 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.

DESCRIPTION OF THE ISSUER

Introduction to CEMG

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

Following the Extraordinary General Meeting of the Issuer held on 22 November 2016 and resumed on 13 December 2016 and 6 January 2017, the procedures aiming the transformation of CEMG from a savings bank annexed to MGAM into a full service savings bank (*caixa económica bancária*), adopting the form of a public limited liability company (*sociedade anónima*) (pursuant to the provisions of article 6 of Decree-Law no. 190/2015) have been initiated.

The transformation of the Issuer into a public limited liability company was further discussed in an Extraordinary General Meeting of the Issuer held on 4 April 2017. At such Extraordinary General Meeting, the Executive Board of Directors of the Issuer was granted all necessary powers to carry out all the necessary actions towards the implementation of such transformation into a public limited liability company. The Issuer further informed the Extraordinary General Meeting that it had been notified that the Bank of Portugal had given a favourable opinion regarding the compliance of the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (*caixa económica bancária*) into a public limited liability company.

The aforementioned Extraordinary General Meeting concurrently approved (in the context of the capital breakdown as at the meeting date) i) the full scope of the new Articles of Association; and ii) that the share capital amounting to €2,170,000,000 of the transformed entity would comprise 2,170,000,000 nominative, book-entry shares, with a nominal value of €1 (one euro) each; €1,770,000,000 would be converted from the institutional capital and registered to MGAM, whereas €400,000,000 would result from the termination of the Participation Fund (*Fundo de Participação*) and the respective transformation into common shares registered on behalf of the Participation Fund's holders.

MGAM is a private institution of social support (i.e. a mutual benefits association) whose principal purposes are to promote and develop initiatives designed to ensure the social protection and welfare of its 625,419 mutual members as at 31 December 2017, 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.

In accordance with the RGICSF, CEMG 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 30 June 2017, it ranks sixth in the Portuguese banking system as far as total net assets are concerned (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Following the entry into force of the Savings Banks Act, CEMG is characterised as a savings bank (*caixa económica bancária*), authorised in such capacity to pursue all the businesses permitted to banks in Portugal.

The Issuer will be managed in accordance with its Articles of Association and with the provisions of the Portuguese Companies Code. Moreover, it should be noted that pursuant to the transformation of the Issuer into a public limited liability company, MGAM, as the sole holder of the Issuer's share capital is the sole holder of voting rights in CEMG.

CEMG is integrated in the CEMG Group owned by MGAM. Collectively, these entities not only offer a broad and diversified range of banking and financial products and services, but also contribute with their earnings to the mutualist goals.

In addition to CEMG, the following three domestic entities comprise the CEMG Group: Montepio Crédito, Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A.; and Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A. Each incorporated under Montepio Holding, SGPS, S.A. ("**Montepio Holding**") (previously Finibanco Holding, SGPS, S.A.) and fully owned by CEMG. In the domestic market, CEMG has a small qualified holding in HTA-Hotéis, Turismo e Animação dos Açores, S.A. and in Montepio Gestão de Ativos Imobiliários, whose accounts are consolidated by the equity method, as well as a 100 per cent. capital participation in SSAGINCENTIVE, S.A. At an international level, CEMG holds majority holdings in Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and in Finibanco Angola and since December 2014, CEMG holds management control in BTM in Mozambique.

CEMG takes a major role in the implementation of the CEMG Group's business strategy, as it uses its nationwide branch network comprising 324 branches in Portugal as at 31 December 2017 compared with 327 branches in Portugal as at 31 December 2016. CEMG'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). CEMG is also present in Angola, through Finibanco Angola (CEMG holds an 81.4 per cent. share interest in Finibanco Angola), which had a retail network of 24 branches as at 31 December 2017. At the end of 2014, under its growth and geographical expansion strategy, CEMG acquired a qualifying holding of 44.5 per cent. compared with 45.8 per cent. as at 31 December 2017, in the capital of BTM, adding 9 more branches to CEMG's international presence.

CEMG is a public limited liability company and is registered at the Lisbon Commercial Registry Office (1st Section) under the Registration and Tax Identification number 500 792 615 and is domiciled in Portugal, having its registered office at Rua Áurea, 219-241, 1100-062 Lisbon, Portugal, with telephone number +351 213 248 000.

History

In 1840, Francisco Manuel Alvares Botelho established Montepio dos Empregados Públicos, a mutual benefit association intended to assist its members through periods of unforeseen financial hardship, caused by illness, disability or death. Its name was changed twice, firstly to Montepio Geral, Associação de Socorros Mútuos and in 1844 it was changed to Montepio Geral – Associação Mutualista, 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 CEMG's branches throughout Portugal. Originally, CEMG was run as a division of MGAM but, by the late 1930s, the two organisations had become separate legal entities. In accordance with Decree-Law 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" and exempt from some taxes.

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 CEMG'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 specialising in the management of mutual funds, and wealth management, and Montepio Gestão de Activos Imobiliários, ACE, a company specialising in the management of real estate funds.

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

Additionally, in January 1997, CEMG acquired certain assets and liabilities of another small savings bank, Caixa Económica Comercial e Industrial ("**CECI**"). In 2009, Lusitania Companhia de Seguros, S.A. acquired the insurance companies Real and Mutuamar, 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 CEMG 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, CEMG 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, CEMG indirectly acquired 81.6 per cent. of the share capital and the voting rights of Finibanco Angola. As a result of these acquisitions, CEMG'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. CEMG sold the shares directly held in Futuro, Lusitania Vida and Lusitania to Montepio Seguros. Additionally, CEMG acquired 33.65 per cent. of the capital of Montepio Seguros. On 30 December 2015, CEMG sold its shareholding in Montepio Seguros.

In 2013, some of CEMG's capital became open to public investment for the first time. On 25 November 2013, CEMG 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 Banco Terra'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 CEMG 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.).

Current Activities

The Issuer operates as an universal bank offering a wide range of banking and financial products and services, such as mutual, real estate and pension funds, insurance (life and non-life), investment management services and the provision of credit cards, aimed at catering to all its customers' financial needs. The Issuer has also been developing international operations, especially by the provision of foreign currency to its Portuguese customers, documentary credits and payment orders, focusing mainly on attracting deposits from non-resident Portuguese nationals. To this end, CEMG Group currently has also five representative offices in Paris, Toronto, Geneva, Frankfurt and Newark.

Since December 2014, the CEMG Group has extended its geographical presence to Mozambique, following the acquisition of a stake of 44.5 per cent. (45.8 per cent. as at 31 December 2017) in the capital of BTM. The CEMG Group acquired control of BTM following an agreement with the strategic shareholders of BTM. BTM is set to become an important agent in the development and economic growth of Mozambique, targeting the retail and corporate areas, in particular agri-business customers, mortgage loans and small and medium-sized enterprises ("**SMEs**"). As a result, since the end of 2014, the international activity of the CEMG Group is now represented by three entities – Banco MG Cabo Verde, S.A., Finibanco Angola and BTM.

The Issuer's international activity is undergoing a reorganisation and resizing process with a view to seizing strategic complementarity. Along with the implementation of strategic action measures that will allow it to refocus and reposition the institution in its natural market, it will offer a wide range of products and services and a differentiated customer relationship, acknowledged by its stakeholders.

The Issuer's strategic plan for 2016-2018 aims to ensure profitability and the strengthening capital and liquidity levels, defining as priorities the increase of the core net operating income, the platform efficiency, the risk management reinforcement, the liquidity recovery and management, the human capital management, the capital management and the governance model (the "**Strategic Plan**").

Analysis of the Issuer's financial performance

2017 consolidated activity and results (audited)

The main highlights in respect of the Issuer's activity in this period are as follows:

In 2017, CEMG embarked on a series of initiatives aimed at accomplishing the objectives defined in the Strategic Plan, in particular those related to the deleveraging of CEMG's balance sheet, embodied in the reduction of non-performing loans, of credit granted to non-core activity sectors, of exposure to real estate risk, and the improvement of liquidity levels, by attracting and retaining customer deposits and using less costly funding sources.

(EUR million)

	2016	2017	Change	
			Amount	%
Cash and deposits at central banks and OCI	1 010	2 096	1 086	>100
Loans to customers	13 861	13 029	(832)	(6.0)
Securities portfolio	3 604	2 385	(1 219)	(33.8)
Non current assets held for sale and investment properties	1 368	1 281	(87)	(6.4)
Non current assets held for sale - Discontinuing operations	470	474	4	0.9
Current and deferred tax assets	534	473	(61)	(11.3)
Other	499	462	(37)	(7.5)
Total assets	**21 346**	**20 200**	**(1 146)**	**(5.4)**
Deposits from central banks and OCI	4 599	3 345	(1 254)	(27.3)
Customers' resources	12 468	12 561	93	0.7
Issued debt	2 171	1 780	(391)	(18.0)
Non current liabilities held for sale - Discontinuing operations	354	330	(24)	(6.6)
Other	297	421	124	41.8
Total liabilities	**19 889**	**18 437**	**(1 452)**	**(7.3)**
Share capital*	2 170	2 420	250	11.5
Reserves, retained earnings and other	(627)	(663)	(36)	(5.7)
Net income	(86)	6	92	-
Total equity	**1 457**	**1 763**	**306**	**21.0**
Total liabilities and equity	**21 346**	**20 200**	**(1 146)**	**(5.4)**

* In 2016 includes the Capital and the Participation Fund.

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

Capital

In 2017, CEMG's own funds strengthened. This is reflected through the performance of CET1, which reached €1,572 million as at 31 December 2017 compared with €1,331 million as at 31 December 2016. This performance, coupled with a reduction of €955 million or 7.4 per cent. in risk-weighted assets due to the deleveraging process and an efficient management of risk allocation in credit portfolios and debt securities, was reflected in an improvement in capital ratios compared with 2016. In fact, the CET1 ratio amounted to 13.2 per cent. and the Total Capital ratio to 13.3 per cent. as at 31 December 2017 compared with 10.4 per cent. and 10.9 per cent., respectively, as at 31 December 2016.

The increase in CET1 registered as at 31 December 2017 shows, essentially, the increase of €250 million in the institutional capital and the recording of a Net Income of €6.4 million during the 12 month period ending on 31 December 2017.

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 good risk and associated guarantees.

As at 31 December 2017, CEMG's fully implemented capital ratios had improved, with the CET1 ratio having reached 11.6 per cent. and the Total Capital ratio 11.9 per cent. compared with 7.6 per cent. and 8.2 per cent., respectively, as at 31 December 2016, thus increasing by 4 percentage points. and 3.7 percentage points, respectively. Taking into consideration the positive impact estimated by the adhesion to the Special Regime of Deferred Tax Assets of 0.7 percentage points in the CET1 ratio and 0.6 percentage points in the Total Capital ratio as at 31 December 2017, these ratios would have amounted to 12.3 per cent. and 12.5 per cent., respectively, as at 31 December 2017 (fully implemented).

CAPITAL AND CAPITAL REQUIREMENTS

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Total Capital	**1 392**	**1 580**	**188**	**13.5**
Share capital [(1)]	2 170	2 420	250	11.5
Reserves and Net Income	(743)	(696)	47	6.3
Regulatory deductions	(96)	(152)	(56)	(57.8)
Common Equity Tier 1 Capital	**1 331**	**1 572**	**241**	**18.1**
Tier 1 Capital	**1 331**	**1 572**	**241**	**18.1**
Tier II capital	74	24	(50)	(67.4)
Other deductions	(13)	(16)	(3)	(22.6)
Minimum own funds requirements	**1 026**	**950**	**(76)**	**(7.4)**
Risk-weighted assets	**12 830**	**11 875**	**(955)**	**(7.4)**
CRD IV Prudential Ratios - Phasing-in				
Common Equity Tier 1	10.4%	13.2%	280 pb	
Tier 1	10.4%	13.2%	280 pb	
Total Capital	10.9%	13.3%	240 pb	
CRD IV Prudential Ratios - Fully Implemented				
Common Equity Tier 1	7.6%	11.6%	400 pb	
Tier 1	7.6%	11.7%	410 pb	
Total Capital	8.2%	11.9%	370 pb	
Leverage ratio - Phasing-in	6.1%	7.6%	150 pb	
Leverage ratio - Fully Implemented	4.5%	6.8%	230 pb	

According to the phasing-in rules in force at the reference date.
(1) In 2016 includes the Capital and the Participation Fund.

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

Funding

As at 31 December 2017, customer deposits stood at €12,561 million, essentially concentrated in individual customers, a segment that maintained its predominance in representing 73 per cent. of total deposits.

As at 31 December 2017, customer deposits showed a year-on-year growth of 0.7 per cent., reflecting the continuity of the imprinted commercial dynamics, despite the historically low level of interest rates and the competitive environment.

As at 31 December 2017, securities placed with customers stood at €617 million compared with €1,327 million as at 31 December 2016, as a result of the securitised debt that matured during the year having been replaced by less costly market operations from a perspective of management of funding needs.

As at 31 December 2017, off-balance sheet funds amounted to €709 million compared with €723 million as at 31 December 2016, primarily as a result of the year-on-year decrease in capitalisation insurance ("**Bancassurance**") and in real estate investment funds not offset by the increase observed in pension funds.

CUSTOMERS' RESOURCES

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Customer Deposits (by segment)	**12 468**	**12 561**	**93**	**0.7**
Individuals	9 397	9 215	(182)	(1.9)
Companies and Institutionals	3 071	3 346	275	9.0
Customer Deposits (by type)	**12 468**	**12 561**	**93**	**0.7**
Sight Deposits	3 302	3 509	207	6.3
Term Deposits	9 166	9 052	(114)	(1.2)
Securities placed with Customers	1 327	617	(710)	(53.5)
Total On-Balance sheet resources	**13 795**	**13 178**	**(617)**	**(4.5)**
Off-Balance sheet resources	723	709	(14)	(1.9)
Total Customers' resources	**14 517**	**13 887**	**(630)**	**(4.3)**

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

As at 31 December 2017, the amount of issued debt (including securities and subordinated liabilities) fell by 18.0 per cent. and reached the value of €1,780 million compared with €2,171 million as at 31 December 2016. This decrease reflects the 19.6 per cent. reduction in liabilities represented by securities due to maturity repayments of €264.4 million and early repayments of €400 million cash bonds and 5.9 per cent. of the subordinated liabilities.

Liquidity

During the 12 month period ending on 31 December 2017, CEMG continued to develop a series of initiatives aimed at the reinforcement of its liquidity position, in line with the regulatory objectives and as defined in the Strategic Plan.

The management of CEMG's balance sheet enabled the LCR to reach 153.2 per cent. as at 31 December 2017, having evolved favourably compared with the ratio of 106.6 per cent. recorded as at 31 December 2016 and standing 73.2 percentage points above the minimum requirement of 80 per cent. applicable in 2017. This shows the impact of the €750 million issue of covered bonds and the growth in customer deposits verified in 2017.

The evolution of customer deposits on the one hand, and of loans to customers on the other hand, led to a favourable evolution of the loan-to-deposit ratio. Accordingly, the loan-to-deposit ratio, considering customer funds on the balance sheet and net loans to customers, stood at 92.4 per cent. as at 31 December of 2017 compared with 96.3 per cent. as at 31 December 2016. This ratio, calculated pursuant to Bank of Portugal's instruction number 16/2014, shifted to 107.3 per cent. as at 31 December 2017 from 111.2 per cent. as at 31 December 2016.

LIQUIDITY RATIOS

	2016	2017	YoY Change (%)
Loans to customers (net) / Customers' deposits (a)	111.2	107.3	(3.9 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources (b)	96.3	92.4	(3.9 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 this report.

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

CEMG's use of ECB funds as at 31 December 2017 was lower than as at 31 December 2016 by €765 million. The use of the pool of collateral in Eurosystem operations stood at €1,558 million as at 31 December 2017 compared with €2,323 million as at 31 December 2016. The total value of the pool of eligible assets as at 31 December 2017 was also lower than as at 31 December 2016 by €943 million. 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 the participation in Targeted Longer-term Refinancing Operations ("**TLTRO-II**"), in the context of the expansionary non-conventional monetary policy measures implemented by the ECB. In terms of available collateral for obtaining liquidity, the value of the eligible assets shifted to €1,037 million as at 31 December 2017 from €1,215 million as at 31 December 2016.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(EUR million)

	2016	2017	Change	
			Amount	%
Pool of eligible assets [(a)]	3 538	2 595	(943)	(26.6)
Use of the pool	2 323	1 558	(765)	(32.9)
Pool of available assets	**1 215**	**1 037**	**(178)**	**(14.7)**

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

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

Repurchase agreement operations ("**Repos**") showed a reduction of €250 million in 2017, having shifted to €1,675 million as at 31 December 2017 from €1,925 million as at 31 December 2016, reflecting the sale of assets. This enabled the release of the value of the haircut and the realisation of capital gains.

In the interbank money market, as at 31 December 2017 CEMG recorded liquidity assignments of €30 million at the rate of 0 per cent. and US$8.5 million at the rate of 1.45 per cent. In the collaterised interbank market of euros ("**MIC**"), CEMG did not record any amount of funds assigned or taken.

Asset Quality

As at 31 December 2017, loans to customers amounted to a gross amount of €14,063 million, reflecting a decrease of 6.5 per cent. compared with the gross amount of loans to customers as at 31 December 2016, as a result of a demanding risk management policy for the concession of loans, risk-adjusted repricing and the low demand for credit by economic agents.

In 2017, CEMG continued to improve the credit approval and lending process in order to reduce the cost of credit risk in line with the objectives defined in the Strategic Plan.

On this basis and as a result of the measures implemented, namely the application of stricter credit granting criteria, as at 31 December 2017 there was a year-on-year reduction of 52 per cent. in the entry of new non-performing loans.

As at 31 December 2017, the loan portfolio recorded a year-on-year reduction of €978 million. The factors contributing to such a reduction were the decrease in loans to companies, in particular the 14.2 per cent. and 12.8 per cent. decreases recorded in gross loans to the trade activities sector and the financial activities sector, respectively, and in loans to individuals, namely the 6.7 per cent. decrease in housing loans, as well as the securitisation of a portfolio of non-performing loans with a value of €580.7 million. This operation, designated "Evora Finance", was the first rated securitisation carried out in Portugal of a portfolio of non-performing loans.

LOANS TO CUSTOMERS

(By sector of activity)

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Housing loans	7 227	6 739	(488)	(6.7)
Construction and Public works, and Real estate activities	1 809	1 774	(35)	(2.0)
Wholesale and retail trade	1 238	1 063	(175)	(14.2)
Financial Activities	735	641	(94)	(12.8)
Services provided to companies	657	630	(27)	(4.1)
Tourism	500	497	(3)	(0.5)
Transports	471	476	5	0.9
Manufacture of food products, beverages and tobacco	235	228	(7)	(3.0)
Basis metallurgic industries and metallic products	180	172	(8)	(4.5)
Electricity, gas and water	195	153	(42)	(21.3)
Agriculture, forestry and fishing	160	145	(15)	(9.1)
Others	1 634	1 545	(89)	(5.4)
Gross loans	**15 041**	**14 063**	**(978)**	**(6.5)**
Loan impairments	**1 180**	**1 034**	**(146)**	**(12.4)**
Net loans	**13 861**	**13 029**	**(832)**	**(6.0)**

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

Throughout 2017, CEMG accomplished a series of initiatives started in 2016 aimed at reducing its exposure to non-performing loans and to activity sectors identified as non-core.

The balance of non-performing exposures ("**NPE**") thus improved favourably compared to 2016, standing at €2,305 million as at 31 December 2017, with the proportion of NPE in relation to total gross loans reaching 16.4 per cent. as at 31 December 2017.

The coverage of NPE by impairment for balance sheet loans and associated collaterals and financial guarantees amounted to 87.0 per cent. as at 31 December 2017 compared with 87.8 per cent. as at 31 December 2016, while the coverage by impairment for balance sheet loans stood at 44.9 per cent. as at 31 December 2017, improving favourably against the coverage of 42.1 per cent. recorded as at 31 December 2016.

In 2017, the efforts developed in the loan recovery area contributed to the weight of NPE on gross loans to customers decreasing by 2.3 percentage points and reaching 16.4 per cent. as at 31 December 2017 from 18.7 per cent. as at 31 December 2016.

As at 31 December 2017, the total amount of impairments for credit risk reached €1,034 million, giving rise to a 90.2 per cent. ratio of coverage of loans and interest overdue by more than 90 days. In addition, the coverage of NPE was 44.9 per cent. as at 31 December 2017, while the coverage ratio, also considering the total associated collaterals and financial guarantees, reached 87.0 per cent as at 31 December 2017.

LOAN QUALITY INDICATORS

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Gross loans to customers	15 041	14 063	(978)	(6.5)
Loans and interest overdue by more than 90 days	1 372	1 146	(226)	(16.4)
Loans impairment	1 180	1 034	(146)	(12.4)
Ratios (%)				
Cost of credit risk	1.2	1.1	(0.1 p.p.)	
Loans and interest overdue by more than 90 days	9.1	8.2	(0.9 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	18.7	16.4	(2.3 p.p.)	
Restructured loans (Forborne) (a) / Gross loans to customers	8.9	8.2	(0.7 p.p.)	
Coverage by Impairments for balance sheet loans (%)				
Loans and interest overdue by more than 90 days	86.0	90.2	4.2 p.p.	
Non-performing exposures (NPE) (a)	42.1	44.9	2.8 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	87.8	87.0	(0.8 p.p.)	

(a) EBA definition.

**The '2017' column contains figures as at 31 December 2017 and the '2016' column contains figures as at 31 December 2016*

The CEMG Group's credit risk exposure during each of the two 12 month periods ending on 31 December 2017 and 31 December 2016, respectively, can be analysed as follows:

(thousands of euro)

	2017	2016
Deposits with other credit institutions	50 205	69 568
Deposits with banks	312 203	559 091
Loans and advances to customers	13 029 318	13 861 034
Financial assets held-for-trading	174 175	70 998
Financial assets held-for-sale	1 658 409	1 832 323
Held-to-maturity investments	-	1 126 125
Investments in associated companies	4 097	4 042
Other assets	184 245	215 694
Guarantees granted	483 916	491 501
Irrevocable commitments	609 515	488 069
	16 506 083	18 718 445

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from the Portuguese Republic.

As at 31 December 2017, approximately €1,227.6 million or 8.7 per cent. of the Issuer's loan portfolio, including past due interest, was in default compared with €1,453.3 million or 9.7 per cent. of the Issuer's loan portfolio, including past due interest, as at 31 December 2016.

The analysis of overdue loans and interest during each of the two 12 month periods ending on 31 December 2017 and 31 December 2016, respectively, by type of customer and purpose, is as follows:

(Thousands of Euro)

	2017	2016
Corporate		
Construction/Production	267 222	303 668
Investment	490 234	499 744
Treasury	212 935	323 421
Other loans	47 514	62 882
Retail		
Mortgage loans	92 744	117 990
Consumer credit	59 444	68 411
Other loans	57 479	77 222
	1 227 572	1 453 338

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

The following table sets forth the default period of time for non-performing loans during each of the two 12 month periods ending on 31 December 2017 and 31 December 2016, respectively:

(thousands of euro)

	2017	2016
Overdue loans and interest		
Less than 90 days	81 350	81 718
More than 90 days	1 146 222	1 371 620
	1 227 572	1 453 338

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

As at 31 December 2017, the balance loans and advances to customers related to the issue of covered bonds held by CEMG amounted to €2,726,854 thousands compared with €2,725,631 thousands as at 31 December 2016.

Earnings

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition in the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising on trading and hedging activities. The interest from debt instruments are recognised as interest margin.

Financial assets available for sale held with the purpose of being maintained by the Issuer, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. The accumulated gains or losses recognised as fair value reserves are recognised in the income statement. When it is not possible to estimate with reliability the fair value, the financial instruments are recognised at acquisition cost. Interest income from debt instruments is recognised in net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognised in the income statement when the right to receive the dividends is attributed.

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that the Issuer has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in net interest income. The impairment losses are recognised in profit and loss when identified. Any reclassification or sale of financial assets included in this category that does not occur close to the maturity, or if is not included in the exemptions of the standards, will require the Group to reclassify the entire portfolio as financial assets available for sale and the Group will not be allowed to classify any assets under this category for the following two years.

The net interest income stood at €266.2 million during the 12 month period ending on 31 December 2017, showing an increase of €13 million compared with the €253.2 million recorded during the 12 month period ending on 31 December 2016.

Contributing to this performance was the reduction in financing costs, namely the decreases of 35.4 per cent. in customer deposits, 81.7 per cent. in central bank resources and other credit institutions and 31.4 per cent. in debt securities issued, which was higher than the decreases of 7.8 per cent. in interest and income of the loan portfolios and 79.1 per cent. in financial assets available for sale, in the context of historically low reference interest rates in the market.

Loans to customers during the 12 month period ending on 31 December 2017 recorded a decrease in the average balance compared to the value during the 12 month period ending on 31 December 2016 due to the ongoing deleveraging process, namely in non-performing loans and activity sectors that are considered non-core, in particular the construction sector, and in housing loans which continue to show a higher level of amortisation in relation to the new operations raised.

At the level of the average interest rate on customer loans, reflecting the effect of the repricing of operations in a context where the main reference rates were situated on negative ground during the 12 month period ending on 31 December 2017, an average rate of 2.43 per cent. was registered during the 12 month period ending on 31 December 2017 compared with 2.54 per cent. during the 12 month period ending on 31 December 2016, translating into a negative price effect of €16.5 million.

The securities portfolio during the 12 month period ending on 31 December 2017 registered an average balance lower than during the 12 month period ending on 31 December 2016 and, at the same time, the average interest rate also showed an unfavourable evolution by shifting from 1.99 per cent. during the 12 month period ending on 31 December 2016 to 1.46 per cent. during the 12 month period ending on 31 December 2017, revealing the impact of the sale of Portuguese sovereign debt bonds during the 12 month period ending on 31 December 2017 that provided the recording of gains in financial operations of a total of €73.4 million during the 12 month period ending on 31 December 2017. The observed effects on net interest income during the 12 month period ending on 31 December 2017 driven by the securities portfolio, by volume and by price, were both negative and amounted to 23.4 million.

The net interest income during the 12 month period ending on 31 December 2017 benefited from the positive price effect of €45.2 million recorded in customer deposits, showing the impacts of the average rate having evolved to 0.70 per cent. during the 12 month period ending on 31 December 2017 from 1.07 per cent. during the 12 month period ending on 31 December 2016, benefiting from the continued and permanent management of the price applied to the capture of new deposits, as well as from the repricing of the existing deposits upon their maturity.

Likewise, the senior debt contributed positively to the evolution of the net interest income between the 12 month period ending on 31 December 2016 and the 12 month period ending on 31 December 2017, namely through the price effect of €2.4 million, due to the reduction of the average rate to 2.44 per cent. during the 12 month period ending on 31 December 2017 from 2.55 per cent. during the 12 month period ending on 31 December 2016.

BREAKDOWN OF NET INTEREST INCOME

(EUR million)

	2016			2017		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	341	0.05	0.2	469	0.00	0.0
Loans and advances to OCI	182	2.16	4.0	414	0.94	4.0
Loans to customers	15 317	2.54	394.4	14 738	2.43	363.7
Securities portfolio	2 962	1.99	59.9	2 471	1.46	36.5
Other (includes derivatives)		-	75.8		-	16.4
subtotal	18 802	2.80	534.3	18 092	2.29	420.6
Liabilities						
Resources from central banks	2 806	0.04	1.1	2 322	0.04	1.0
Resources from OCI	1 753	0.58	10.4	2 057	0.66	13.7
Customers' deposits	12 091	1.07	131.1	11 919	0.70	84.7
Senior debt	2 148	2.55	55.5	1 540	2.44	38.1
Subordinated debt	274	1.41	3.9	249	1.20	3.0
Other (includes derivatives)		-	79.1		-	13.9
subtotal	19 072	1.45	281.1	18 087	0.84	154.4
Net interest income		**1.33**	**253.2**		**1.45**	**266.2**

**The ‘2017’ column contains figures as at 31 December 2017 and the ‘2016’ column contains figures as at 31 December 2016*

Therefore, the conjugation of the above-described effects resulted in an increase of 0.12 percentage points in the net interest income rate, which increased to 1.45 per cent. during the 12 month period ending on 31 December 2017 from 1.33 per cent. during the 12 month period ending on 31 December 2016.

(Thousands of Euro)

	2017	2016
Fee and commission income:		
From banking services	99 897	87 376
From transactions on behalf of third parties	29 159	20 666
Guarantees provided	6 254	6 523
From insurance brokerage services	7 572	11 418
From commitments to third parties	2 824	3 566
Other fee and commission income	4 248	6 414
	149 954	135 963
Fee and commission expense:		
From banking services rendered by third parties	19 766	19 557
From transactions with securities	663	717
Other fee and commission expense	9 717	14 200
	30 146	34 474
Net fee and commission income	119 808	101 489

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

The results from financial operations amounted to €70.7 million during the 12 month period ending on 31 December 2017 compared with €37 million recorded during the 12 month period ending on 31 December 2016. This increase shows the realisation of gains from the sale of Portuguese sovereign debt bonds, which reached €73.4 million during the 12 month period ending on 31 December 2017 compared with €3.2 million during the 12 month period ending on 31 December 2016.

RESULTS FROM FINANCIAL OPERATIONS

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Results from financial assets available-for-sale	53.7	(14.8)	(68.5)	-
Results from financial assets and liabilities at fair value through profit or loss	(18.2)	83.6	101.8	-
Results from currency revaluation	1.5	1.9	0.4	24.4
Results from financial operations	**37.0**	**70.7**	**33.7**	**91.2**
of which: Results from the sale of Portuguese sovereign debt	*3.2*	*73.4*	*70.2*	*>100*

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

Operating costs during the 12 month period ending on 31 December 2017 amounted to €268 million, representing a decrease, on a comparable basis, of 9.4 per cent. compared with the figure reported during the 12 month period ending on 31 December 2016.

This decrease was influenced by the rationalisation process of the operative platform, which improved the operational efficiency, allowing the Cost-to-Income ratio to reach 53.0 per cent.

Staff costs during the 12 month period ending on 31 December 2017 amounted to €156.2 million, representing a reduction of 21.4 million or 12.0 per cent. compared with the value recorded during the 12 month period ending on 31 December 2016, excluding the specific impacts of the resizing of the staff and the effects related to the revision of the collective labour agreement ("**CLA**") recorded during the 12 month period ending on 31 December 2016.

General and administrative expenses amounted to €87.0 million during the 12 month period ending on 31 December 2017, showing a reduction of 7.5 per cent. compared with the 12 month period ending on 31 December 2016, benefiting from the materialisation of the synergies resulting from the renegotiation of contracts and the closure of branches. The decrease in general and administrative expenses during the 12 month period ending on 31 December 2017 mainly reflects the reduction of rents and leases by €2.9 million or 23.8 per cent. compared with the 12 month period ending on 31 December 2016 and the decrease in expenses with specialised services by €2.6 million or 6.7 per cent. compared with the 12 month period ending on 31 December 2016, determined by the computer component which decreased by 33.0 per cent. compared with the 12 month period ending on 31 December 2016.

Amortisation and depreciation during the 12 month period ending on 31 December 2017 totalled €24.8 million, an increase of 2.2 per cent. compared with the 12 month period ending on 31 December 2016.

During the 12 month period ending on 31 December 2017, the Cost-to-Income efficiency ratio, excluding the results from financial operations and the effects derived from the operative resizing and revision of the CLA, stood at 61.7 per cent. compared with 88.4 per cent. recorded during the 12 month period ending on 31 December 2016.

OPERATING COSTS

(EUR million)

	2016	2017	YoY Change	
			Amount	%
Staff Costs (a)	177.6	156.2	(21.4)	(12.0)
General and administrative expenses	94.0	87.0	(7.0)	(7.5)
Amortization and depreciation	24.3	24.8	0.5	2.2
Operating costs (a)	**295.9**	**268.0**	**(27.9)**	**(9.4)**
Operating expenses with structure resizing programme	35.2	-	-	-
Revision of the collective labour agreement	(47.3)	-	-	-
Operating costs	**283.8**	**268.0**	**(15.8)**	**(5.6)**
Efficiency ratios				
Cost-to-Income (Operating costs / Total operating income) (b)	76.4%	53.0%	(23.4 p.p.)	
Cost-to-Income, excluding specific impacts (c)	88.4%	61.7%	(26.7 p.p.)	

(a) Excludes the impacts arising from the operational redimensioning and revision of the Collective Labour Agreement

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

(c) Excludes results from financial operations and the impacts arising from the operational redimensioning and revision of the Collective Labour Agreement

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016*

The allocations for impairment and provisions amounted to €191.4 million during the 12 month period ending on 31 December 2017, showing a decrease of 26.8 per cent. compared with the value of €261.5 million recorded during the 12 month period ending on 31 December 2016. This performance was influenced by the 11.9 per cent. reduction of impairments for loans during the 12 month period ending on 31 December 2017, which shifted to €160.7 million during the 12 month period ending on 31 December 2017 from €182.5 million during the 12 month period ending on 31 December 2016, reflecting the improvements made to the risk analysis policy in credit concession, which led to the cost of credit risk having evolved to 1.1 per cent. during the 12 month period ending on 31 December 2017 from 1.2 per cent. during the 12 month period ending on 31 December 2016.

The endowments for credit impairment incorporate the result of the individual analysis made to significant exposures and which showed signs of impairment, on the one hand, and the value derived from the impairment model used to calculate the impairment associated to homogeneous populations, on the other hand, pursuant to accounting policy 1. c) described in the Notes to the Financial Statements.

The impairments constituted during the 12 month period ending on 31 December 2017 for other financial assets decreased by €36.7 million in compared with the value recorded during the 12 month period ending on 31 December 2016, standing at €7.8 million.

In relation to the impairment of other assets, the value stated for the 12 month period ending on 31 December 2017 stood at €12.6 million, showing a decrease of 69.3 per cent. compared with the value recorded during the 12 month period ending on 31 December 2016. Other provisions recorded an endowment of €10.3 million during the 12 month period ending on 31 December 2017 compared with a reversal of €6.3 million recorded during the 12 month period ending on 31 December 2016.

IMPAIRMENT AND PROVISIONS

	2016	2017	YoY Change	
			Amount	%
Loan impairments	182.5	160.7	(21.8)	(11.9)
Other financial assets impairments	44.5	7.8	(36.7)	(82.5)
Other assets impairments	40.8	12.6	(28.2)	(69.3)
Other provisions	(6.3)	10.3	16.6	-
Total of impairment and provisions	**261.5**	**191.4**	**(70.1)**	**(26.8)**

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 month period ending on 31 December 2016; the figures provided are in € million*

International activity

The international activity of the CEMG Group is carried out by the subsidiaries Finibanco Angola, Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and BTM.

Finibanco Angola, controlled by CEMG through a 81.4 per cent. stake in its share capital, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade which seeks to leverage its competitive advantage on the quality of its service.

Under its strategy, Finibanco Angola seeks to finance and promote individual customers and micro-enterprises with viable business initiatives that would otherwise not have access to credit. The expansion of the distribution network has been accomplished through own funding, in a perspective of proximity to its customers, in a total of 24 branches and business centres as at 31 December 2017.

BTM, controlled by CEMG through a 45.78 per cent. stake in its share capital, is a commercial bank that aims to offer financial solutions in the retail and business segments, having been created for the purpose of contributing to poverty reduction in Mozambique, by offering loans to the agricultural and food sectors and providing financial services to the rural and suburban populations.

Under its strategy, BTM established a Public-Private Partnership aimed at providing the rural and suburban population with access to financial services in a feasible and sustainable form.

Banco MG Cabo Verde, S.A., controlled by CEMG though a 100 per cent. stake in its share capital, proposes, with its specialised offer of products and services, to offer its customers, whether individual, institutional or companies with an international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

The table below presents a summary of the activity and results of the CEMG Group's international business.

Activity and Results			(EUR million)
	2016*	**2017***	YoY Change
Total assets	740.0	707.8	(4.4%)
Loans to customers (net)	181.9	156.8	(13.8%)
Customers' deposits	581.0	516.9	(11.0%)
Total operating income	48.2	43.6	(9.6%)
Operating costs	24.4	28.3	15.8%
Cost to Income	50.7%	65.0%	14.3 p.p.
Net income	10.6	7.1	(33.0%)

*For comparative purposes the financial statements of Finibanco Angola and BTM were restated using the same exchange rate: AOA/EUR 185,400; MZN/EUR 70,377.

The performance of the Group's international activity during the 12 month period ending on 31 December 2017 continued constrained by the relatively adverse macroeconomic context of the main geographic areas in which it operates. In Angola, the economy continued to face significant macroeconomic imbalances during the 12 month period ending on 31 December 2017, following the previous sharp drop in the price of oil. After a contraction of GDP during the 12 month period ending on 31 December 2016, it is estimated that the economy started to recover during the 12 month period ending on 31 December 2017, with a slowdown of the annual average inflation rate, which nonetheless remained above two digits for the third year consecutively, above all influenced by the heavy depreciation of the kwanza against the dollar. In Mozambique, GDP would have registered during the 12 month period ending on 31 December 2017 its lowest growth rate since 2000, with average annual inflation beginning to slow down from the levels recorded during the 12 month period ending on 31 December 2016, when it reached its highest value since 1996.

The activity developed during the 12 month period ending on 31 December 2017 by Finibanco Angola was influenced by the adverse economic and financial circumstances, the high level of interest rates and the restrictions to the transfer of currencies, reflected in the performance recorded by the key business indicators.

The impacts induced by these adverse circumstances and by the high interest rates also influenced BTM's performance during the 12 month period ending on 31 December 2017 in certain business lines.

As at 31 December 2017, the total assets of the CEMG Group's international activity decreased by 4.4 per cent. compared with the value as at 31 December 2016. This difference was primarily due to the year-on-year reduction of 17.4 per cent. as at 31 December 2017 observed in the total assets of Banco MG Cabo Verde, S.A., as the year-on-year increase in the total assets of BTM was 4.1 per cent. as at 31 December 2017 and practically stabilised at Finibanco Angola, which recorded a year-on-year increase of 1.4 per cent. as at 31 December 2017 in its total assets.

As at 31 December 2017, the Loans granted to customers of the international activity decreased by 13.8 per cent., to €156.8 million as at 31 December 2017 from €181.9 million as at 31 December 2016. This reduction was caused by the year-on-year reduction of 15.9 per cent. in the loans of Finibanco Angola, which totalled €122.6 million as at 31 December 2017 compared with €145.8 million as at 31 December 2016, and by the year-on-year reduction of 5.6 per cent. reduction in the loans granted to customers at BTM, which reached €34.1 million as at 31 December 2017.

Customer deposits gathered by the subsidiaries comprising the international activity of the CEMG Group reached €516.9 million as at 31 December 2017, having fallen by 11.0 per cent. compared with the 12 month period ending on 31 December 2016. The customer deposits of Finibanco Angola amounted to €309.4 million as at 31 December 2017, reflecting a decrease of 7.3 per cent. compared with the 12 month period ending on 31 December 2016 and representing 59.9 per cent. of the total deposits of the international activity. The customer deposits of Banco MG Cabo Verde, S.A. stood at €181.3 million as at 31 December 2017, reflecting a decrease of 18.5 per cent. compared with the 12 month period ending on 31 December 2016. As at 31 December 2017, the customer deposits of BTM reached a total of €26.2 million compared with €24.7 million as at 31 December 2016, corresponding to a year-on-year increase of 6.0 per cent.

During the 12 month period ending on 31 December 2017, the total operating income of the international activity decreased by 9.6 per cent., to stand at €43.6 million as at 31 December 2017 compared with €48.2 million as at 31 December 2016. This evolution was mainly determined by the €6.4 million or 59.3 per cent. decrease in results from currency revaluation compared with the 12 month period ending on 31 December 2016 and the 5.4 million decrease in other total operating income compared with the 12 month period ending on 31 December 2016.

At Finibanco Angola, total operating income declined year-on-year by 9.9 per cent. during the 12 month period ending on 31 December 2017, fundamentally reflecting the negative evolution of results from currency revaluation, which fell by €4.3 million, and other operating income, which decreased by €5.6 million during the 12 month period ending on 31 December 2017 compared with the 12 month period ending on 31 December 2016.

At BTM, total operating income reached €6.7 million during the 12 month period ending on 31 December 2017, comparing unfavourably to the value of €7.3 million during the 12 month period ending on 31 December 2016, reflecting a year-on-year reduction of €0.7 million or 9.1 per cent., primarily driven by the evolution of results from currency revaluation, which decreased by €2.3 million during the 12 month period ending on 31 December 2017, and of net fees and commission income, which fell by 3.8 per cent. during the 12 month period ending on 31 December 2017.

At Banco MG Cabo Verde, S.A., total operating income totalled €0.5 million during the 12 month period ending on 31 December 2017, a year-on-year increase of 11.6 per cent. The progression of total operating income at Banco MG Cabo Verde, S.A. benefitted from the positive evolution of the Results from currency revaluation, which increased by €0.2 million during the 12 month period ending on 31 December 2017, reaching €146,000 as at 31 December 2017.

The operating costs of international activity increased by 15.8 per cent. during the 12 month period ending on 31 December 2017, to stand at €28.3 million compared with €24.4 million during the 12 month period ending on 31 December 2016. This rise was determined by the increases of, compared with the 12 month period ending on 31 December 2016, 20.6 per cent. in the components of staff costs, 10.1 per cent. in general administrative expenses and 22.2 per cent. in amortisation and depreciation.

At Finibanco Angola, BTM and Banco MG Cabo Verde, S.A., the operating costs increased by 20.3 per cent., 2.4 per cent. and, 27.2 per cent. respectively during the 12 month period ending on 31 December 2017 compared with the 12 month period ending on 31 December 2016, reflecting the evolution of business activity and the features of the respective markets.

At Finibanco Angola, the increased operating costs during the 12 month period ending on 31 December 2017 was transversal to all the costs components, with the increase of, compared with the 12 month period ending on 31 December 2016, 27.5 per cent. in staff costs, 13.3 per cent. in general administrative expenses and 22.5 per cent. in amortisation and depreciation. At BTM, the year-on-year increase in operating costs during the 12 month period ending on 31 December 2017 compared with the 12 month period ending on 31 December 2016 was determined by 4.2 per cent. higher staff costs combined with 23.8 per cent. higher amortisation and depreciation and attenuated by the 3.5 per cent. decrease in general administrative expenses. At Banco MG Cabo Verde, S.A., during the 12 month period ending on 31 December 2017 compared with the 12 month period ending on 31 December 2016, staff costs and general administrative expenses increased by 21.7 per cent. and 31.4 per cent., respectively, whereas amortisation and depreciation fell by 54.3 per cent.

As a result of this evolution, the Cost-to-Income ratio of the international activity during the 12 month period ending on 31 December 2017 stood at 65.0 per cent., a reduction of 14.3 percentage points compared with the 12 month period ending on 31 December 2016.

During the 12 month period ending on 31 December 2017, the contribution of the international activity to the consolidated net income, excluding the impact of the impairment constituted for these financial holdings, reached €7.1 million compared with €10.6 million during the 12 month period ending on 31 December 2016, with positive net income of €7.1 million in Finibanco Angola and €92,200 in BTM, while Banco MG Cabo Verde, S.A. generated negative net income of €93,500.

Key indicators

KEY INDICATORS	2016	2017	Change 2017/2016
ACTIVITY AND RESULTS (EUR million)			
Total assets	21 346	20 200	(5.4%)
Loans to customers (gross)	15 041	14 063	(6.5%)
Customers' deposits	12 468	12 561	0.7%
Net income	(86)	6	-
SOLVENCY (a)			
Common Equity Tier 1 ratio	10.4%	13.2%	2.8 p.p.
Tier 1 ratio	10.4%	13.2%	2.8 p.p.
Total Capital ratio	10.9%	13.3%	2.4 p.p.
Risk weighted assets (EUR million)	12 830	11 875	(7.4%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	111.2%	107.3%	(3.9 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	96.3%	92.4%	(3.9 p.p.)
CREDIT RISK AND IMPAIRMENT COVERAGE FOR BALANCE SHEET CREDIT			
Cost of credit risk	1.2%	1.1%	(0.1 p.p.)
Ratio of loans and interest overdue by more than 90 days	9.1%	8.2%	(0.9 p.p.)
Coverage of loans and interest overdue by more than 90 days	86.0%	90.2%	4.2 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	18.7%	16.4%	(2.3 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	42.1%	44.9%	2.8 p.p.
Restructured loans (Forborne) (d) / Gross customer loans	8.9%	8.2%	(0.7 p.p.)
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	1.7%	2.5%	0.8 p.p.
Net income before income tax / Average total assets (b)	(0.9%)	0.2%	1.1 p.p.
Net income before income tax / Average total equity (b)	(12.3%)	3.0%	15.3 p.p.
Operating costs / Total operating income (cost-to-income) (b)	76.4%	53.0%	(23.4 p.p.)
Cost-to-Income, excluding specific impacts (e)	88.4%	61.7%	(26.7 p.p.)
Staff costs / Total operating income (b)	44.5%	30.9%	(13.6 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Group total (f)	3 806	3 837	31
CEMG	3 588	3 630	42
Branches			
Domestic - CEMG	327	324	(3)
International	33	34	1
Finibanco Angola (g)	23	24	1
BTM - Banco Terra	10	10	0
Representation Offices - CEMG	6	5	(1)

(a) Pursuant to CRD IV / CRR (phasing-in).
(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 to this report.
(d) EBA definition.
(e) Excludes results from financial operations and the impacts arising from the operating resizing and from the revision of the Collective Labour Agreement
(f) Excluding transferred employees and work suspension contracts.
(g) Includes corporate centres.

Employees

The number of employees grew by 31 employees or 0.8 per cent. to 3,837 as at 31 December 2017 from 3,806 as at 31 December 2016, without considering the employees assigned to other companies of the Group and employees with suspension of provision of work. In the domestic activity, CEMG registered an increase of 42 employees as at 31 December 2017 compared with the value recorded as at 31 December 2016, as a result of 100 admissions and 58 exits, of which 6 were the result of to retirement processes and 45 to contract termination.

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.

Credit risk management benefits from a robust credit decision and analysis process, supported by a set of tools to support 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 (eg the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to retail clients and the rating for the non-retail segment.

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' behaviour. Scoring models are also used on the retail portfolios, namely in the individual credit, such as mortgage, individual and credit card loans, distinguishing between customers and non-customers (or new customers).

In non-retail credit internal rating, models are used to small, medium and large companies, differentiating some sectors of activity, such as the third sector and real estate, while for customers "Empresários em nome individual" ("**ENI's**") and small companies, considered retail, the respective scoring model is applied.

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-performing, in accordance with the internal definition in force, which follows the guidelines of the regulators in terms of prudential requirements.

The pricing of the active operations reflects the expected loss, as well as the capital borrowed cost and equity and the administrative costs. In quantifying the expected loss, the marginal probabilities of default for the term of the operation, associated with the internal risk classes and the loss severity, quantified through market estimates, are considered, taking into account the types of credit and of collaterals. Pricing also reflects the business relationship with customers.

It is possible to derogate from the response of scoring systems, internal ratings and internal price lists, upon approval by higher-level decision makers, in accordance with principles of delegation of responsibilities set out.

Rejection situations are defined in order to minimise the risk of adverse selection, and there is always at least one 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 approval of operations with lower risk-adjusted return on equity ("**ROE**") or with higher exposures must escalate to higher-level decision makers. These limits are approved by the governing body, and the highest decision scale corresponds to the governing body. At intermediate stages, it is compulsory to have at least two decision-makers, one from the commercial network and the other from the Credit Analysis Department, independent body of the commercial structure, as well as the Risk Division, unit responsible for the development of risk models (scoring and rating), and for the control and monitoring of CEMG Group's risk, overall.

In the scope of credit risk, 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.

The Group's calculation model for impairment on the loan portfolio has been in force since June 2006 and is subject to regular updates, governed by the general principles defined in IAS 39, as well as by the guidelines contained in the Circular Letter no. 02/2014/DSP of the Bank of Portugal, in order to align the calculation process with the best international practices.

CEMG's impairment model begins by segmenting the credit portfolio customers into three distinct groups, depending on the existing signs of impairment (including internal and external information) and the size of the set of exposures of each economic / client group:

- "**Individually Significant**" client / economic group: individual clients or economic groups that meet at least one of the following requirements are subject to individual analysis:
    - Exposure above €1 million, with signs of impairment;
    - Exposure above €2.5 million, without signs of impairment;
    - "**Regulatory Client**": client / economic group subject to individual analysis in the previous month and that do not meet the current exposure criteria.

In terms of collective analysis of impairment, the allocation is made taking into account the following criteria:

- Homogeneous populations with signs of impairment: clients or economic groups that do not fulfil the criteria to be Individually Significant and that present at least a sign of impairment.
- Homogeneous populations without signs of impairment: clients or economic groups that do not fulfil the criteria to be Individually Significant and that do not show any sign of impairment.

Depending on the group in which the clients are classified, the operations are dealt through individual analysis, or collective analysis.

For each of the active clients / credits, a set of impairment signs is verified, which includes internal and external information, which in turn, aggravate impairment values as they represent an increase in the risk of default. It should be noted that credit restructured due to financial difficulties is a sign of impairment and therefore the loan portfolio classified as restructured is included in the credits with signs of impairment.

In the group of homogeneous populations, customer exposures are subject to collective analysis. The calculation of the impairment value for customer loans belonging to homogeneous populations results from the product of the exposure at default ("**EAD exposure**") (deducted from risk-free financial collateral, namely deposits with the institution) and the following risk parameters:

- Probability of default ("**PD**"): corresponds to internal default estimates, based on risk classifications associated with operations / clients, segment and respective impairment / credit status (if any). If the credit is in default or cross-default, the PD corresponds to 100 per cent;
- Default loss ("**LGD**"): corresponds to internal loss estimates, which vary depending on the segment, whether or not there is a real guarantee, Loan-to-Value figures and default seniority, based on CEMG's historical experience on credits recovery that have been in default.

In the group of Individually Significant clients, client 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 and other factors considered relevant for this analysis.

Impairment value for Individually Significant clients 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 from the clients' various operations, discounted 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 €1,162,359 thousands as 31 December 2017 compared with €1,314,438 thousands as at 31 December 2016, which have an impairment of €390,088 thousands as at 31 December 2017 compared with €403,396 thousands as at 31 December 2016.

The Group has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, the recommendations contained within non-mandatory legislation, such as Decree-Law No. 227/2012, were adopted and disclosed on the institutions' websites, in internal rules and communications disclosed to and implemented when customers show evidence of financial difficulties.

Regarding the particular forbearance measures, as at 31 December 2013, CEMG adopted the ones included in Instruction 32/2013 of the Bank of Portugal, namely contractual amendments (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 2017 and 2016 were positive and mitigated 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 formally restructured with the customers and the consequent establishment of new funding to replace the previous funding available to such customer. 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 any new collateral.

In respect of restructured loans, the impairment associated to these operations amounts to €28,892 thousands as at 31 December 2017 compared with €26,812 thousands as at 31 December 2016.

CEMG uses physical and financial collateral as instruments for mitigating credit risk. The physical collateral mainly includes mortgages on residential properties during the life of the mortgage and other types of mortgages on properties in other types of loans. To reflect their market value, collateral is valued regularly based on valuations 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. Financial collateral is re-evaluated based on market values of the relevant assets, when available and certain coefficients apply depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

The following table shows total non-performing exposures (as per EBA definition) and total impairment charges during each of the two 12 month periods ending on 31 December 2017 and 31 December 2016, respectively:

	2017	2016
Total non-performing exposures (€Mn)	2 305	2 805
(as percentage of total credit to customers)	16.4%	18.7%
Impairment for credit risk (€Mn)	1 034	1 180
(as percentage of total non-performing exposures)	44.9%	42.1%

**The '2017' column contains figures for the 12 month period ending on 31 December 2017 and the '2016' column contains figures for the 12 months ending on 31 December 2016*

Financial Risk Management

The most important financial risks to which the Issuer is potentially exposed are liquidity risk, foreign exchange risk and interest rate risk; the most important in practice being liquidity risk.

In common with many similar credit institutions which finance housing loans, the Issuer's loan assets are relatively illiquid whilst its funding is based on retail deposits, most of which are either legally available on demand or are of a short term nature (although in practice such deposits usually remain with the Issuer for extended periods). Liquidity is monitored on a daily basis, based on actual and forecast money inflows and outflows, and measures are immediately taken to overcome any shortfall.

With the aim of rendering a more liquid profile to its assets, the Issuer has been securitising part of its credit book, namely housing credit, under its Pelican Mortgages Programme, out of which six transactions have been executed, so far, with four of them still outstanding at the present time.

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which exposure limits are also defined. This control is reinforced with stress tests executed on a monthly basis, in order to characterise the risk profile of the Issuer and ensure that the CEMG Group fulfils its obligations in a liquidity stress scenario.

In addition, a follow-up of liquidity positions from a prudential point of view, calculated under the rules required by the Bank of Portugal (Instruction No. 13/2009 of 15 September), was carried out. Historically, the Issuer has shown dynamic positive liquidity gaps, with positive accumulated mismatches (gaps in the phasing between resource inflows and outflows) for the different timeframes up to 12 months.

Also, it is calculated on a regular basis the level of compliance with the new prudential liquidity ratios, namely: (i) the LCR introduced with the entry into force of CRD IV in 2014. As at 31 December 2017, the LCR stood at 153.2 per cent. compared with 106.6 per cent. as at 31 December 2016, above the minimum 80 per cent. required level.

Concerning the exchange rate risk of the banking portfolio, the funds mostly raised in various currencies are invested in assets in the respective money market for maturity periods not exceeding those of the resources. Therefore, existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources.

In addition, with regards to the exchange rate risk of the banking portfolio, limits of exposure have been defined which are monitored by the Assets and Liabilities Committee (“**ALCO**”), where any overrunning of the established limits follows the defined process, including the approval by the management body or the implementation of measures to cover that risk.

The limits defined in terms of exchange rate risk, include limits of currency position, in consolidated and individual terms, as well as in terms of VaR, and is also broken down in terms of the trading portfolio and the banking portfolio.

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 Group’s consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, net equity 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 Basel recommendations and Bank of Portugal’s Instruction No. 19/2005 of 15 June, the Group calculates, at least once every three months, its exposure to balance sheet interest rate risk 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 portfolio, by repricing brackets.

Within this scope, factors to limit the exposure to interest rate risk have been defined which are monitored by ALCO, where any overrunning of any of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover this exposure.

In parallel, a stress test is conducted with six shock scenarios on the interest rate curve. The test also measures impacts on the net interest margin and on the net equity of shocks on the interest rate curve specified 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 flows are projected, 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 portfolio, by repricing brackets:

(EUR 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	8 090	3 323	638	1 797	1 023
Off balance sheet	10	0	0	783	0
Total assets	**8 100**	**3 323**	**638**	**2 580**	**1 023**
Liabilities	4 732	1 904	2 509	8 049	275
Off balance sheet	759	10	10	15	0
Total liabilities	**5 491**	**1 914**	**2 519**	**8 064**	**275**
GAP (Assets - Liabilities) in Dec 2017	**2 610**	**1 409**	**(1 881)**	**(5 485)**	**748**
GAP (Assets - Liabilities) in Dec 2016	**3 589**	**1 295**	**(1 268)**	**(7 323)**	**2 162**

**The ‘2017’ column contains figures as at 31 December 2017 and the ‘2016’ column contains figures as at 31 December 2016*

Sensitivity to the balance sheet interest rate risk, by currency, is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

Given the interest rate gaps observed as at 31 December 2017, a shift in interest rates by 1 percentage point would lead to a variation in the economic value of the bank portfolio of approximately €12.2 million as at 31 December 2017 compared with the - €30.5 million as at 31 December 2016.

The gaps of interest rate during the two 12 month periods ending on 31 December 2017 and 31 December 2016, respectively are presented as follows:

(thousands of euro)

	2017				2016			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	-2,598,790	-2,071,755	-1,544,721	-2,598,790	-1,544,721	-1,530,516	-1,309,808	-1,737,019

**Figures are provided in € thousands*

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.

As far as financial assets are concerned, a report is produced on the related credit and market risks on the Issuer's and the CEMG Group's securities portfolios. A daily risk assessment is drawn-up for the Issuer's own portfolio, which includes an analysis on the sensitivity of the portfolio's net asset value, as well as the disclosure of other risk measures, such as Value-at-Risk ("**VaR**"), checks on Stop-Loss limits and a breakdown of the portfolio's assets by credit ratings and duration.

Value-at-Risk ("**VaR**") is one of the main metrics used to measure and monitor market risk. The Group calculates VaR on a daily basis for both its trading portfolio and its available-for-sale assets portfolio, based on a time horizon of 10 business days and on a significance level of 99 per cent., using the historical simulation method. The types of risk considered in this methodology are the interest rate risk, the exchange rate risk, the price risk, the Credit Default Swap ("**CDS**") risk, the options risk and the specific credit risk.

The Group's investment portfolio is mainly concentrated in bonds, and bonds represented 76.6 per cent. of the total portfolio as at 31 December 2017 compared with 83.9 per cent. of the total portfolio as at 31 December 2016, maintaining the Group's dominant position in bonds of sovereign issuers, essentially from Portugal and Italy.

With regard to credit derivatives, CEMG held no position in these instruments as at 31 December 2017 and as at 31 December 2016.

Regarding the level of credit quality of debt securities, the improvement of the Portuguese public debt rating stands out. As regards the composition of the portfolio, there was a reduction in exposure to Portuguese sovereign debt and an increase in exposure to Italian sovereign debt.

With regard to the trading portfolio, the main VaR indicators are presented below:

(thousands of euro)

	2017	Average	Minimum	Maximum	2016
Market VaR	508	383	193	532	316
Interest rate risk	121	152	53	168	98
Exchange risk	93	80	62	113	78
Price risk	479	319	162	482	318
Diversification effect	*-185*	*-168*	*-84*	*-231*	*-178*
Credit VaR	2 349	1 381	302	2 412	285
Total VaR	**2 857**	**1 764**	**495**	**2 944**	**601**

Competition

The Issuer ranks sixth in total net assets in the Portuguese banking system as at 31 December 2017 (source: Boletim Estatístico da Associação Portuguesa de Bancos). Despite the competition in the market, CEMG has been able to sustain its position in the market and to preserve its market share in banking activity. CEMG's overall market share (deposits and credit) was 6.2 per cent. as at 31 December 2017 (source: Bank of Portugal Financial and Monetary Statistics (Resident Activity)).

Furthermore, as at 31 December 2017, the Issuer has a market share of 7.2 per cent. in housing credit and 6.8 per cent. in loans to SMEs and corporations (source: Bank of Portugal, Financial and Monetary Statistics (Resident Activity)). As at 31 December 2017, CEMG's market share in total deposits stood at 6.1 per cent., reaching 6.4 per cent. in the household deposits segment, including emigrants (source: Bank of Portugal, Financial and Monetary Statistics (Resident Activity)).

The Issuer is consolidating its market share in other business areas, such as 3.1 per cent. in leasing, 1.3 per cent. in factoring, 5.0 per cent. in mutual funds and 8.0 per cent. in pension funds, all market shares as at 31 December 2017 (source: Bank of Portugal, Financial and Monetary Statistics (Resident Activity)).

The Issuer considers that its primary competitive advantage arises from the quality of service rendered to customers. The mutual nature, coupled with private pension schemes and other benefits which MGAM provides to its members and the reputation as a stable financial institution are considered by the Issuer the key reasons for its customers to continue finding CEMG an attractive provider of banking services.

Participation Fund (*Fundo de Participação*)

As referred to in the above section, on 25 November 2013, the Issuer launched an IPO of 200 million securities (*Unidades De Participação*), at a face value of €1, in the Participation Fund of the Issuer. The securities offering was successful, with demand exceeding offer by 10.2 per cent., and subscription orders reaching in excess of €220 million in the 15 business day subscription period. On 17 December 2013, the securities were listed on the Euronext Lisbon following a regulated market special session. Following this listing, the Issuer was considered a company whose capital was open to investment by the public (*Entidade Com Capital Aberto Ao Investimento do Público*).

In addition, on 26 June 2015, the Issuer issued 200 million securities (*Unidades de Participação*), through a private offer fully subscribed and paid for by MGAM.

Hence, a total 400 million securities (*Unidades de Participação*) have been issued representing the Participation Fund: 200 million securities were issued by public offer; and the remaining 200 million securities were issued through a private offer fully subscribed and paid for by Montepio Geral – Associação Mutualista.

According to articles 6(b) and 8 of its by-laws, the Issuer provided for the establishment of a Participation Fund (*Fundo de Participação*), which, in addition to the institutional capital, the legal reserve, the special reserve, the other reserves and the undistributed results would form the equity and own funds of CEMG.

The main characteristics of the Participation Fund (*Fundo de Participação*) were as follows:

a) the Participation Fund (*Fundo de Participação*) was permanent;

b) it was represented by securities (*Unidades de Participação*) equivalent to equity, with a nominal value and in the form to be determined when their respective issuance was to be approved;

c) it could only be redeemed upon the winding-up of the Issuer and only upon the redemption of all the other creditors of the Issuer, including those that held other types of subordinated debt. The holders of the securities (*Unidades de Participação*) would rank *pari passu* and pro rata with the holder of the Issuer's institutional capital in sharing the liquidation amount of the Issuer's assets;

d) any redemption of the Participation Fund (*Fundo de Participação*) could only be made pursuant to the provisions of the Issuer's by-laws and following the prior written consent of the Bank of Portugal;

e) the holders of the securities (*Unidades de Participação*) were not entitled to intervene in the governing bodies of the Issuer, but were only entitled to receive an annual revenue if and when there were sufficient results to that effect and upon the approval of the Issuer's General Meeting, based on a proposal by the Executive Board of Directors; and

f) the overall amount of the Participation Fund was not capped, but the Executive Board of Directors of the Issuer was authorised to issue securities (*Unidades de Participação*) up to an amount equivalent to the institutional capital amount.

The Bank of Portugal acknowledged the Issuer's Participation Fund as a positive element of its core own funds, according to article 3(a) of the Bank of Portugal's Notice (*Aviso*) no. 6/2010 (as amended), and its eligibility for the computation of Core Tier 1, according to Bank of Portugal's Notice (*Aviso*) no. 3/2011 (as amended) and common equity as per CRD IV (i.e. the regulation resulting from the CRD IV and CRR).

As a consequence of the Participation Fund public offer and admission to the regulated market, the Issuer became legally deemed as an issuer of shares admitted to trading on a regulated market. As such, the Issuer needed to comply with all duties and obligations mandatory to an issuer of shares, including to disclose all relevant information to the market and regulators, namely CMVM and the Bank of Portugal.

Since 21 March 2016, and as a consequence of the annual review of the PSI20 (the Portugal PSI 20 Index is a capitalisation-weighted index of the top stocks listed on the Lisbon Stock Exchange), the securities (*Unidades de Participação*) of the Participation Fund met the criteria in order to be included in this reference index of the Portuguese stock market. As securities that were equivalent to shares and the requirements of liquidity, free-float and speed of capital turnover in the market, the securities (*Unidades de Participação*) were included in the reference basket of companies listed on the Portuguese stock market. As part of the tender offer process (launched by MGAM on 4 July 2017), they were subsequently excluded from the PSI 20 Index from 12 September 2017 onwards and the trading of securities (*Unidades de Participação*) was suspended.

After the transformation of the Issuer into a public limited liability company, the Participation Fund was closed down and the securities (*Unidades de Participação*), as well as the institutional capital, were converted into common shares. Consequently, the €2,420,000,000 capital is currently represented by 2,420,000,000 common shares (and voting rights) with the value of €1.00 each, which are not listed on a regulated market.

Technology

CEMG believes that technology has strategic importance in providing good quality and innovative services to its customers, which is essential to maintain its competitiveness in the Portuguese market.

The Legacy System is hosted in shared IBM zSeries Z13 model N30 508 5052 using 1.968 Mips. The business application was developed in partnership with the company Accenture. The base package, Alnova, is now developed in COBOL (Enterprise Cobol 4.2), DB2 (DB2 for z/OS V11) and CICS (CICS TS for z/OS V5. 3) and run in a z/OS V2.1.

The last developments in the Legacy System include the 24x7 Project. With this implementation, current accounts processing, domestic transfers and payments, and internal ATM cash transactions become available in real-time, 24 hours every day of the week, without unavailability related to Batch Processing. The next phase will be enabling real-time debit and credit card transactions, saving account movements and inter-bank transfers.

CEMG deployed a private cloud solution based in VMWARE and HYPER-V, following the IaaS model, allowing powerful consolidation and virtualisation of the Distributed Systems, with the corresponding benefits from increased operational efficiency, shorter time to production and reduced infrastructure-related efforts and costs.

In addition, a CITRIX virtualisation farm was implemented 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.

On growing a cloud integration strategy, new services were adopted on the Office 365 platform: Skype for Business, Yammer, One Drive, Exchange Online, Sharepoint Online and Intune.

Following a digital transformation vision, a new business platform was adopted: CRM Online. This SaaS solution empowers the digital marketing strategy, bringing new capabilities to the organisation, aligning Marketing and Sales activities within the customer journey.

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 maintained in continuous evolution. It provides high bandwidth connections up to 10 GB, incorporating 4G technology.

The security infrastructure ensures, in a high availability system, the protection of all systems through Geo-cluster Checkpoint firewalls integrating the protection of threats with Radware intrusion detection mechanisms, geographic balancing and Radware local balancing. All components of the solution are present in its' own infrastructure with multi-user interconnections to assure that all national and international communications and their contents are served in Lisbon or Porto, providing protection against failures in the event of interruptions in local or regional networks, power outages or natural disasters.

Recently CEMG has launched the Security Operations Centre ("**SOC**") service. The SOC is the 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) - CEMG 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 using the Accenture Multichannel Platform is in place, migrating the 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.

- A new Enterprise Data Warehouse ("**EDW**") was implemented in 2010 based on a relational model named Detail Data Store ("**DDS**"), developed on a SAS technology platform, supported on a Data Computer Appliance (Greenplum). This new EDW supports all needs related with Business Intelligence trends considering financial services. This infrastructure keeps increasing, on a regular basis in order to cater for the needs arising from the development of new business lines and to meet business subjects areas like risk, profitability, pricing, Regulatory Reporting, Auditing, Marketing.

- The former CRM is, currently being developed to a Marketing Automation level comprising a new Analytic CRM platform interacting with an upgraded Operational CRM application among full integration with a revised 360º Customer Vision (value added with new commercial relevant information) and integration with Product Catalogue 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+, CEMG could implement a complete front-to-back solution with strong support for risk management and centralised administration and control. CEMG is using version 3.2 SP2 and is in the process of upgrading to the most recent version of Finastra Kondor+ in December 2018. 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.

BOARD OF DIRECTORS AND OTHER GOVERNING AND CORPORATE BODIES OF THE ISSUER

Following the implementation of the 2013 Articles of Association, the Issuer's governance structure comprises management and supervisory bodies separate from those of MGAM. Nonetheless, as the Issuer is an entity fully 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 the Issuer'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 the Issuer's by-laws was related to the way 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 the Issuer (i.e. members of the Board of Directors of MGAM are no longer statutorily members of the General and Supervisory Board of the Issuer).

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 the Issuer.

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 the Bank of Portugal pursuant to paragraph 2 of the Savings Bank Act, an Extraordinary General Meeting of CEMG was convened on 22 November 2016, to deliberate on the transformation of CEMG into a public limited liability company and the consequent amendment of its Articles of Association.

The transformation of CEMG into a public limited liability company was further discussed in an Extraordinary General Meeting of the Issuer held on 4 April 2017, in accordance with number 2 of article 6 of the Savings Banks Act, which 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 the CEMG'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 CEMG's transformation into a public limited liability company, only occurred after CEMG's commercial registration, which took place on 14 September 2017.

On 14 September 2017, the deed of the bylaws was executed, transforming CEMG into a public limited liability company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

CEMG's governance model, after its transformation 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 CEMG, but the Remuneration Committee, the Evaluation Committee and the Risks Committee became Corporate Bodies of CEMG,, to which were added two new corporate bodies (the Financial Matters Commission and the Secretary of CEMG).

Pursuant to the resolutions taken in that General Meetings of the Issuer, the members of the Executive Board of Directors and the General and Supervisory Board maintained their terms in the statutory bodies after the transformation of the Issuer into a public limited liability company (*sociedade anónima*).

CEMG's governance model was a two-tier model, which included an Executive Board of Directors, a General and Supervisory Board and a Statutory Auditor. Pursuant to the Issuer's governance model, the General and Supervisory Board was the body responsible for the supervision, monitoring and counselling of the Issuer's activity.

Recently the Issuer has implemented an important change in the governance model and it has endorsed, since 16 March 2018, a one-tier corporate structure with a Board of Directors, including an audit committee and an external independent auditor.

The Board of Directors, comprising a non-executive Chairperson plus at least six Executive Directors and five Non-Executive Directors, all elected at a General Meeting of Shareholders, in addition to its legal duties, shall undertake the Issuer's management pursuant to article 15 of the Articles of Association. The Board of Directors shall delegate the day-to-day management of the Issuer 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 the Issuer.

The auditor is essentially responsible for examining the books, accounts and financial statements of the Issuer and verifying the adequacy of the adopted accountancy policies and standards.

Pursuant to the corporate governance model adopted by the Issuer – 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 the Bank of Portugal on 4 April 2018.

In accordance with Article 6 of the new Articles of Association in force, CEMG's Governing Bodies are:

a) The General Meeting of Shareholders;

b) The Board of Directors;

c) The Audit Committee; and

d) 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 a member may be re-elected for one or more terms.

The members of the governing bodies are elected at an Extraordinary General Meeting, in accordance with Article 8, number 1, c) and Article 10, number 1, of the new by-laws.

The elected governing bodies took office on 21 March 2018 and Carlos Manuel Tavares da Silva will carry out the duties of Chairperson of the Board of Directors and, temporarily, Chief Executive Officer under the terms authorised by the Bank of Portugal.

Until the current Articles of Association came into effect, the Articles of Association (approved at a General Meeting of Shareholders of CEMG held on 4 April 2017 and ratified at a General Meeting of Shareholders of MGAM held on 9 May 2017) remained in force and the persons elected to the governing bodies under those Articles of Association remained in office.

The current Articles of Association entered into effect on the date they were approved by the General Meeting of Shareholders and at the same time the members of the governing bodies and holders of positions of responsibility began performing their duties.

Notwithstanding the terms of article 15 of the RGICSF, CEMG's Board of Directors may, within six months of the current Articles of Association entering into force, perform its duties even if the number of members laid down in article 14, number 1 is not reached. Over this period, the provisions of articles 14, number 1 and 15, number 4 in regard to the Chairperson of the Board of Directors being a non-executive Director and not being the Executive Committee Chairperson will not apply.

The Governing and Corporate Bodies of the Issuer and the relevant members for the mandates 2015-March 2018 and March 2018-2021 are set out below.

2015 – March 2018

Executive Board of Directors

Following the approval by the Bank of Portugal, the Executive Board of Directors elected in the extraordinary General Meeting held on 5 August 2015, started their functions on 7 August 2015. The following were the members of the Executive Board of Directors of the Issuer 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 the Issuer held on 5 August 2015, as follows:

Name		Other positions
Vitor José Melícias Lopes(1)	Chairperson	No other positions
Manuel Duarte Cardoso Martins	First Secretary	No other positions
António Dias Sequeira(2)	Second Secretary	No other positions

(1) 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

(2) Resigned on 31 December 2015 and replaced by Cassiano Cunha Galvão

General and Supervisory Board

The following were the members of the Issuer'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 the Issuer 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 the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Fernando Lopes Ribeiro Mendes that resigned following his election as member of the Board of Directors of MGAM

(**) Elected in the General Meeting of the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Virgílio Manuel Boavista Lima that resigned following his election as member of the Board of Directors of MGAM

(***) After 1 December 2015, replacing Luísa Maria Xavier Machado

Remuneration Committee

The following were the members of the Issuer's Remuneration Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer 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 the Issuer's Evaluation Committee, elected in the General Meeting of the Issuer 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 the Issuer's Risk Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer 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 the Issuer'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 the Issuer 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 the Issuer's Financial Matters Commission, elected in the General Meeting of the Issuer 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

(*) ceased functions following his election as member of the General and Supervisory Board of CEMG. Following his election as a member of the Board of Directors of MGAM, later he resigned as a member of the General and Supervisory Board of CEMG

(**) elected as substitute of Virgílio Manuel Boavista Lima

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 the Issuer:

Name		Other positions
Carlos Manuel Tavares da Silva	Chairperson	No other positions
Luis Eduardo Henriques Guimarães	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	No other positions
Nuno Cardoso Correia da Mota Pinto	Executive member	No other positions
José Carlos Sequeira Mateus	Executive member	No other positions
Pedro Miguel Nunes Ventaneira	Executive member	No other positions
Carlos Miguel Lopez Leiria Pinto	Executive member	No other positions
Helena Catarina Gomes Soares de Moura Costa Pina	Executive member	No other positions

Areas of responsibility of each member of the Board of Directors and the respective alternate Directors:

Director	Alternate Director	Area of Responsibility
Carlos Manuel Tavares da Silva	None	Internal Auditing and Inspections (daily management) Communications
	José Carlos Sequeira Mateus	Commercial Division (Corporate and Institutional clients)
	Nuno Cardoso Correia da Mota Pinto / Carlos Miguel Lopez Leiria Pinto	Marketing Digital Marketing and Innovation
	Pedro Miguel Nunes Ventaneira	ALM

	Helena Catarina Gomes Soares de Moura Costa Pina	Management assistance office to the Board of Directors Customer Complaints Office
	Nuno Cardoso Correia da Mota Pinto	General Secretariat
Nuno Cardoso Correia da Mota Pinto	José Carlos Sequeira Mateus	Commercial Divisions (including the Public Sector and Social Economy) Office of Promoters and Representation Offices
	Carlos Manuel Tavares da Silva	Loan Portfolio Monitoring Office Business Support Office
José Carlos Sequeira Mateus	Carlos Manuel Tavares da Silva	Organisational Development Office
	Nuno Cardoso Correia da Mota Pinto	IT Division Financial and International Division Investor Relations Office
	Carlos Miguel Lopez Leiria Pinto / Pedro Miguel Nunes Ventaneira	Financial Assets Monitoring Office
Pedro Miguel Nunes Ventaneira	Carlos Manuel Tavares da Silva	Credit Analysis Division Strategic Planning and Accounting Division Risk Division Prudential Regulation Monitoring Office Information Management Office
Helena Catarina Gomes Soares de Moura Costa Pina	Carlos Manuel Tavares da Silva	Legal Division
	Pedro Miguel Nunes Ventaneira	Compliance Division Litigation Division
	Carlos Manuel Tavares da Silva	Human Resources Division
	Nuno Cardoso Correia da Mota Pinto	Managing Operations and Services Division
Carlos Miguel Lopez Leiria Pinto	José Carlos Sequeira Mateus	Credit Recovery 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 the Issuer:

Name		Other positions
António Manuel Lopes Tavares	Chairperson	Not applicable
Cassiano da Cunha Calvão	Secretary	Not applicable

Audit Commission

The current members of the Audit Commission 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 Commission of the Issuer:

Name		Other positions
Luís Eduardo Henriques Guimarães	Chairperson	No other positions
Amadeu Ferreira de Paiva	Member	No other positions
Manuel Ferreira Teixeira	Member	No other positions
Vítor Manuel do Carmo Martins	Member	No other positions

Remuneration Committee

To be appointed by the Board of Directors, according to the article 15 of the Articles of Association.

Risk Committee

Name	Position
Carlos Manuel Tavares da Silva	Chairman
Luis Eduardo Henriques Guimarães	Member
Manuel Ferreira Teixeira	Member
Rui Pedro Brás de Matos Heitor	Alternate Member

Carlos Manuel Tavares da Silva is substituted in the position by Luis Eduardo Henriques Guimarães while performing executive duties. The Alternate Member is in office since this Statutory Committee requires a minimum of three members.

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 n.º 71-A, 11.º andar, 1069-006 Lisboa.

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 ending on 31 December 2017 and 31 December 2016, respectively.

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 Shareholders comprises the owners of shares representing CEMG's share capital, provided they have owned such shares for at least ten days prior to such General Meeting of Shareholders, as proved by their respective registration or certificate of deposit with a financial intermediary.

Two Ordinary General Meetings of Shareholders shall be held each year.

a) One on or before 31 May to:

  i. discuss the management report and the individual and consolidated accounts for the previous year;

  ii. discuss the proposed profit distribution for that year;

  iii. conduct a general appraisal of CEMG's management and supervision and, where appropriate, dismiss within the scope of its powers or express a lack of confidence in the Directors even when such matters are not in the agenda; and

  iv. elect, every four years, the members of the Governing Bodies and the General Meeting Board.

b) One on or before 31 December, to discuss the action plan and budget for the following year and the Audit Committee's opinion on them.

An Ordinary General Meeting of Shareholders may discuss any matter of interest to CEMG, provided it has been included in the agenda.

An Extraordinary General Meeting of Shareholders shall be called to:

a) amend or change the Articles of Association;

b) discuss the merger, splitting up, winding up and incorporation of and with CEMG or its transformation;

c) elect members of Governing Bodies, whenever it is so empowered and there is a vacancy that cannot be filled by calling upon the substitute or by applying the legal rules regarding the substitution of absent or encumbered members; and

d) deal with any matter of interest to CEMG that falls within the legally defined scope of the General Meeting of Shareholders' powers.

An Extraordinary General Meeting of Shareholders may be convened pursuant to applicable law.

General Meeting of Shareholders' decisions shall relate only to matters in the agenda and shall be passed by a simple majority of votes. There shall be one vote per share.

Extraordinary General Meeting of Shareholders' resolutions that involve increasing expenditure or decreasing revenue or which relate to the amending or changing of the these Articles of Association, the merger, splitting up, winding up or incorporation of or with CEMG shall only be valid if they have been approved by a two-thirds majority of the share capital present or represented at the meeting.

As a savings bank, CEMG resolutions made following a second call are subject to the provisions of article 386 (4) of the *Código das Sociedades Comerciais* (Portuguese Companies Act).

It is especially incumbent upon the General Meeting of Shareholders to:

a) elect and dismiss members of the General Meeting Board and the Governing Bodies. Candidates for membership of the Board of Directors and the Audit Committee shall be part of a list that covers all positions and governing bodies and states which persons shall belong to each body and who will chair each body. More than one list may stand for election;

b) appoint the Statutory Auditor following a proposal from the Audit Committee;

c) elect, every four years, and empower a committee to set the remuneration of Governing Body members in accordance with article 399(1) of the *Código das Sociedades Comerciais* (Portuguese Companies Act);

d) discuss the action plan and budget, following an opinion issued by the Audit Committee;

e) discuss the management report and the individual and consolidated accounts for the year, following an opinion issued by the Audit Committee;

f) discuss the profit distribution;

g) discuss any increase in CEMG's share capital and authorise the setting up of equity funds not expressly provided for by the Articles of Association;

h) discuss amendments to these Articles of Association, the splitting up, merger with other entities, the incorporation of or with other entities, the transformation or winding up of CEMG;

i) to hear the appeals submitted to it, within the legal limits and conditions;

j) authorise CEMG to sue the members of its Governing Bodies and/or those in positions of responsibility;

k) define CEMG's strategic approach and approve the general guidelines for the multiannual action plans and updates, following a Board of Directors' proposal;

l) discuss the purchase and sale of any financial holdings in companies and joint ventures;

m) discuss the Board of Directors' report on subsidiaries; and

n) discuss the company's geographical presence policy.

The General Meeting Board shall be made up of a Chairperson and one Secretary, elected by a General Meeting of Shareholders.

Board of Directors

The Board of Directors shall be made up of at least 12 members, comprising a non-executive Chairperson, at least six Executive Directors and five Non-Executive Directors, all elected at a General Meeting of Shareholders.

The Board of Directors shall act as a body. It may take decisions as long as a majority of its members are present and it is expected to meet as many times 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 Chairperson shall have a casting vote.

CEMG shall be legally bound by the signatures of two Directors.

The number of Directors may be changed by a General Meeting of Shareholders' decision backed by a two-thirds majority.

In addition to its legal duties the Board of Directors shall undertake the management of CEMG and in particular:

a) request the convening of General Meetings of Shareholders;

b) draw up the annual report and individual and consolidated accounts on a yearly basis, as well as the proposed profit distribution, to be submitted to the Audit Committee and, together with the opinion of the latter, to be submitted to a General Meeting of Shareholders for approval on or before 31 May in each year;

c) each year, draw up the action plan and budget for the following year to be submitted to the Audit Committee for its opinion and to a General Meeting of Shareholders for approval;

d) discuss the purchase, sale, and encumbrance of real estate;

e) discuss the opening and closure of branches and any other form of representation;

f) discuss the expansion and curtailing of CEMG's business and changes to its functional structure;

g) set, in general terms, the interest rates, commissions, and prices to apply to banking transactions and services rendered;

h) discuss the signing and termination of cooperation agreements with other institutions and CEMG's membership of associations;

i) discuss the issuing of bond loans and non-convertible debt instruments;

j) request admission to trading on a regulated market of securities issued by CEMG;

k) draw up mergers and split proposals;

l) set up the committees and commissions it deems necessary to fulfil its duties, including the Remuneration Committee and the Risk Committee, and appointing their members and chairpersons;

m) represent CEMG in or out of court, and undertake to abide by arbitration; and

n) appoint CEMG's representatives to the governing bodies of institutions in which it has holdings or is a member.

The Board of Directors may empower agents to represent CEMG in any transactions or contracts, and it shall define the scope of their powers. The Board of Directors may delegate the handling of certain management matters to one or more directors.

The Board of Directors shall delegate the day-to-day management of CEMG to an Executive Committee, defining its membership, operating rules and the limits of its power, and shall appoint a chairperson, who shall not be the Board of Directors Chairperson, and possibly a vice-chairperson.

Audit Committee

The Audit Committee shall be made up of at least three members elected by a General Meeting of Shareholders from among the non-executive members of the Board of Directors. The General Meeting shall also appoint the Audit Committee Chairperson, who shall not be the Board of Directors Chairperson.

The Audit Committee shall meet at least once a month.

Notwithstanding any legal requirements, the Audit Committee shall provide advice to and permanent assessment of CEMG, 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 or their special nature. The Audit Committee shall in particular:

a) monitor CEMG's management;

b) monitor compliance with the law and the Articles of Association;

c) check the correctness of the company's ledgers, accounting records and supporting documents;

d) check the accuracy of the accounting documents;

e) check whether the accounting policies and valuation criteria employed by CEMG ensure the proper valuation of its assets and profits;

f) draw up an annual report on its audit work and give its opinion on the report, accounts and proposals submitted by the management, as well as on the action plan and budget;

g) convene a General Meeting of Shareholders whenever the Chairperson of the General Meeting Board should do so but does not;

h) monitor the effectiveness of the risk management system, the internal control system and the internal audit system;

i) receive notices of irregularities sent by shareholders, employees or others;

j) monitor the preparation and disclosure of financial information;

k) propose the appointment of a particular statutory auditor to a General Meeting of Shareholders;

l) monitor the auditing of CEMG's financial statements;

m) monitor the independence of the statutory auditor, particularly in regard to the provision of additional services.

The Audit Committee shall summon to its working sessions any persons belonging to the CEMG structure, as well as the external auditors, whenever it deems appropriate.

The members of the Audit Committee shall take part in meetings of both the Board of Directors and 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 Committee

The Remuneration Committee shall be made up of three members, a Chairperson and two members appointed from among the non-executive members of the Board of Directors or the members of the Audit Committee. The majority of the Remuneration Committee members, including its Chairperson, shall be deemed independent.

Remuneration Committee members 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 Committee shall perform the legal duties relating to remuneration policy in keeping with the law.

At least one member of the Remuneration Committee shall be present at General Meetings of Shareholders that discuss matters falling within its competence.

The Committee shall draw up minutes of its meetings.

Risk Committee

The Risk Committee shall be made up of three members, a Chairperson and two members appointed from among the non-executive members of the Board of Directors or the members of the Audit Committee, who possess the knowledge, skills and experience required under the law. The majority of the Risk Committee members, including its Chairperson, shall be deemed independent.

The Risk Committee shall perform the legal duties assigned to it.

The Committee shall draw up minutes of its meetings.

The Statutory Auditor

The Statutory Auditor, appointed by a General Meeting of Shareholders, following a proposal from the Audit Committee, shall have the powers assigned to it by law, in particular the *Código das Sociedades Comerciais*.

The Statutory Auditor shall attend General Meetings of Shareholders whenever the accounts are appraised and whenever its presence is requested.

Conflicts of Interest

While all the members of the Governing Bodies mentioned above represent the Issuer on their respective boards, none of them have any conflict between their duties to the Issuer and their private interests or other principal activities as listed above.

Business Addresses

The business address of each of the Directors, the Board of Directors and the Audit Committee Members listed above is Rua Castilho, n.º5, 10º andar, postal code 1250-066, Lisbon, Portugal.

CEMG AND ITS RELATIONSHIP WITH MGAM

The information set out below in relation to MGAM is set out for information only. MGAM is not responsible for payments on the Notes issued under the Programme which are the sole responsibility of CEMG.

CEMG 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 CEMG's Articles of Association) so as to enable MGAM to meet its own objectives as a mutual benefit association. MGAM is a "private institution of social support" (i.e. a mutual benefits association) whose principal objects are to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them. MGAM is not permitted to carry out banking or trading activities. It is limited to its principal social welfare objects. MGAM can, however, establish subsidiaries and can invest its funds in a number of ways. It is subject to the Portuguese Mutual Association Code. As at 31 December 2017, the total number of MGAM's permanent members was 625,419. 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.

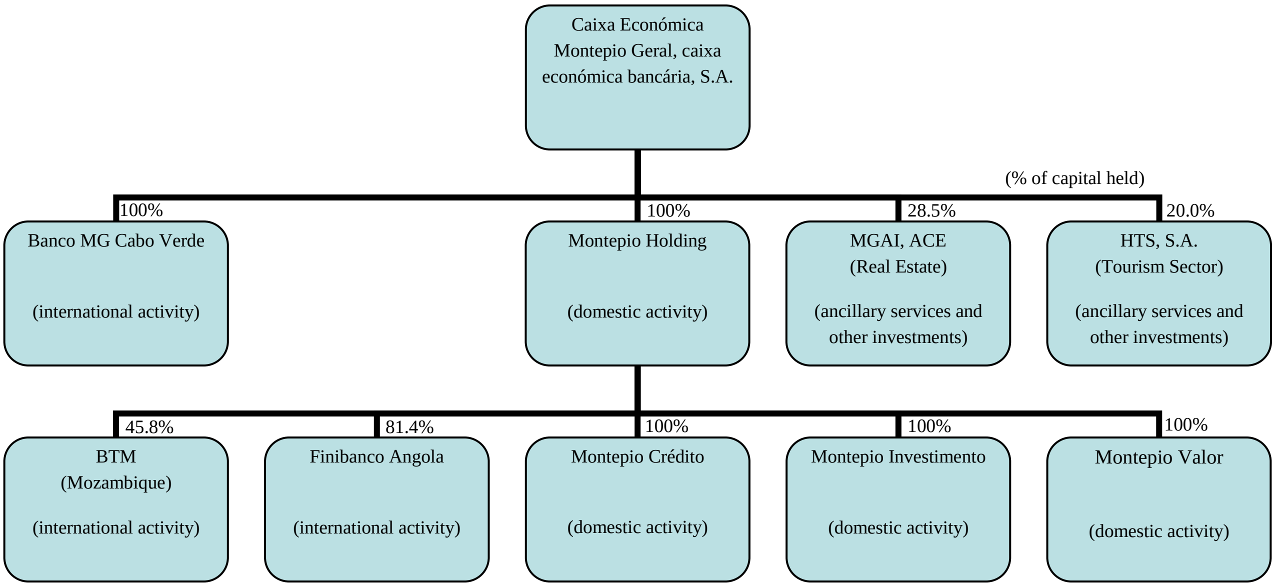
MGAM's main source of funds is membership revenues. Those funds are invested in property and a number of different types of securities and equity participations, particularly financial institutions (including its interest in CEMG). It also has co-operation agreements with a variety of organisations in 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.

CEMG is a savings bank (*caixa económica bancária*) organised as public limited liability company (*sociedade anónima*). It has separate legal personality and MGAM has no responsibility in respect of CEMG's debts. MGAM has not guaranteed the Notes.

MGAM is under no legal obligation to increase CEMG's share capital or otherwise to support CEMG. Deposits with CEMG are covered by the Portuguese deposit guarantee fund up to the prescribed limit. CEMG is authorised to carry on business as a universal bank, under the supervision of the Bank of Portugal. It can carry out stock exchange transactions, trade in derivatives (for its own account or otherwise). It is, in principle, required by law to take a mortgage with respect to financing home purchases and, in common with most banks, it is limited in terms of credits and exposures to a single entity.

OUTLINE OF THE PERFORMANCE OF THE CEMG GROUP'S COMPANIES

CEMG has stakes in a series of institutions whose management it controls. These entities complement CEMG's financial products and services and contribute via their earnings to the creation of value for MGAM (CEMG's parent company and sole owner of its share capital) and for mutual purposes, as well as promoting high ethical standards and principles of social sustainability.



CEMG Group structure as at 31 December 2017

As at 31 December 2017, the consolidation perimeter of the CEMG Group also included entities, consolidated by the "full consolidation" method, as follows:

- Valor Prime – Fundo de Investimento Imobiliário Aberto (Open Real Estate Investment Fund)
- 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);
- Polaris – Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund);
- Portugal Estates Fund (PEF) - Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund); and
- Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (Open Special Real Estate Investment Fund).

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, S.A. and Montepio Valor, S.A., and an 81.6 per cent. stake in Finibanco Angola.

MONTEPIO INVESTIMENTO, S.A.

In 2017, Montepio Investimento, S.A., a subsidiary 100 per cent. controlled by CEMG, continued to assure its specialised intervention aimed at meeting corporate needs in the areas of “Financial Advice” and “Corporate Finance”.

As at 31 December 2017, total net assets of Montepio Investimento, S.A. stood at €225.3 million, showing a reduction of €51.5 million compared with the value recorded as at 31 December 2016.

As at 31 December 2017, the financial assets available for sale reached €145.5 million, recording a decrease of €2.7 million compared with the value recorded as at 31 December 2016. As at 31 December 2017, net loans to customers amounted to €47.0 million, having fallen by €7.9 million or 14.4 per cent., as compared with the value recorded as at 31 December 2016, reflecting the amortisation of the securities and real estate leasing portfolios.

The main sources of funding were the resources from other credit institutions. These resources amounted to €35.1 million as at 31 December 2017. Equity amounted to €188.1 million as at 31 December 2017, having increased by 1.9 per cent. compared with the value recorded as at 31 December 2016. This was a result of the positive net income recorded in the 12 month period ending on 31 December 2017.

In the 12 month period ending on 31 December 2017, net income was €1.7 million, compared with the -€12.9 million recorded in the 12 month period ending 31 December 2016.

In the 12 month period ending on 31 December 2017, total operating income increased by €7.8 million, compared with the €5.6 million recorded in the 12 month period ending 31 December 2016. This reflects the gains in the results from financial operations and the increase in net fees and commissions, which offset the losses recorded under other operating income and net interest income.

In the 12 month period ending on 31 December 2017, operating costs were €1.7 million, falling 8.9 per cent. as compared with the 12 month period ending 31 December 2016. This is due to the reduction in staff costs and the decrease in amortisation and depreciation.

As at 31 December 2017, provisions and impairments amounted to €0.7 million, of which €1.3 million relates to other assets and -€0.6 million to the loan portfolio.

MONTEPIO CRÉDITO – INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.

Montepio Crédito is the CEMG Group’s subsidiary which assures the offer of specialised credit in the motor vehicle, home and equipment branches.

Montepio Crédito has been repositioned within the CEMG Group, joining the core business of motor vehicle financing, the development of specialised financing in professional areas, through relations with business partners, suppliers of light and heavy vehicles and industrial equipment, and through the launch of a Funding and Support line to combat social exclusion.

According to (provisional) data published by ACAP (Portuguese Automobile Trade Association), 145,897 new light vehicles were sold in Portugal during the six month period ending on 30 June 2017, representing a positive year-on-year increase of 7.9 per cent compared with the six month period ending on 30 June 2016.

As at 31 December 2017, the total assets of Montepio Crédito, S.A. stood at €442.5 million, reflecting growth of €56.8 million or 14.7 per cent., as compared with the value recorded as at 31 December 2016. As at 31 December 2017, loans to customers amounted to €406.3 million, having increased by 12.0 per cent., as compared with the value recorded as at 31 December 2016.

In the 12 month period ending on 31 December 2017, net income reached €2.9 million, as compared with the €4.3 million recorded in the 12 month period ending on 31 December 2016.

In the 12 month period ending on 31 December 2017, total operating income reached €15.5 million, as compared with the €17.1 million recorded in the 12 month period ending on 31 December 2016. This decrease was a result of the €1.2 million fall in net interest income and the €1.7 million fall in other operating income, despite an increase in results from financial operations (+€1.2 million) and fee and commission income (+€0.2 million).

Operating costs amounted to €10.7 thousands in the 12 month period ending on 31 December 2017, reflecting an increase of 0.7 per cent. compared with the 12 month period ending on 31 December 2016. This is a result of increased general and administrative expenses due to the increased costs related to credit recovery, in spite of a reduction in staff costs. The changes in total operating income and operating costs on the other hand is reflected in the Cost-to-Income ratio, which stands at 68.7 per cent. as at 31 December 2017.

As at 31 December 2017, the total amount of impairment and provisions reached €0.9 million, compared with €0.7 million as at 31 December 2016. €0.8 million of the amount recorded as at 31 December 2017 as related to loans to customers, compared with the €0.4 million recorded as at 31 December 2016.

INTERNATIONAL ACTIVITY

The international activity of the CEMG Group is carried out by the subsidiaries Finibanco Angola, Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and BTM in Mozambique.

Finibanco Angola, controlled by CEMG through a 81.4 per cent. stake in its share capital as at 31 December 2017, is a universal bank that supports small and medium-sized companies, individuals and Angolan foreign trade which seeks to substantiate its competitive advantage on the quality of its service with a view to achieving high customer satisfaction indices. Under this strategy, it seeks to finance and promote people and micro-enterprises with viable business initiatives and conditions of sustainability that would otherwise not have access to credit. In its support to Angolan foreign trade, CEMG favours transactions between Portugal and Angola, seeking to establish a bridge between Portuguese and Angolan entrepreneurs.

The distribution network totalled 24 branches and business centres as at 31 December 2017, whose expansion has been financed by equity capital.

BTM, controlled by CEMG through a 45.78 per cent. stake in its share capital, is a commercial bank whose objective is to offer financial solutions in the retail and business areas, having been created for the purpose of contributing to poverty reduction in Mozambique.

Under its strategy, BTM established a Public-Private Partnership aimed at providing the rural and suburban population with access to financial services in a feasible and sustainable form.

As at as at 31 December 2017, the distribution network of BTM totalled 10 branches, distributed over the provinces of Maputo, Matola, Maxixe, Beira, Tete, Nampula, Chimoio and Malema.

Banco MG Cabo Verde, S.A., 100 per cent. held by CEMG, proposes, with its specialised offer of products and services, to offer its customers, whether individual, institutional or companies with an international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions. The international dimension of Banco MG Cabo Verde, S.A. is sustained by the geographic dispersion of its customers, spread over various countries, in various continents.

As at 31 December 2017, the total assets of international activity of CEMG Group's international business amounted to €707.8 million compared with €740.0 million as at 31 December 2016. For ease of comparison, the financial statements of Finibanco Angola and BTM, relative to 2016 and 2017, were restated using the same exchange rate: AOA/EUR 185.400; MZN/EUR 70.377.

The loans granted to customers of the international activity segment decreased by 13.8 per cent., from €181.9 million as at 31 December 2016 to €156.8 million as at 31 December 2017. This reduction was caused by the year-on-year reduction of 15.9 per cent. in the loans granted by Finibanco Angola, which totalled €122.6 million as at 31 December 2017, as compared with €145.8 million as at 31 December 2016, and the reduction in the loans granted to customers at BTM, which reached €34.1 million as at 31 December 2017, a 5.6 per cent. decrease from the amount as at 31 December 2016.

The commercial performance of the international activity of the CEMG Group has been influenced by the recent evolution of the different economies, in particular in Angola where economic activity has been severely affected by the fall in the price of oil.

In the 12 month period ending on 31 December 2017, total operating income of the international activity segment was €43.6 million, a decrease of 9.6 per cent compared with €48.2 million recorded for the 12 month period ending on 31 December 2016. This reduction was determined by a decrease of €6.4 million in results from currency revaluation and of €5.4 million in other total operating income, in each case compared with the 12 month period ending on 31 December 2016.

In the 12 month period ending on 31 December 2017, the international activity segment contributed €7.1 million to consolidated net income, excluding the impact of the impairment constituted for these financial holdings, as compared with the €10.6 million in the 12 month period ending on 31 December 2016. Finibanco Angola and BTM contributed €7.1 million and €92.2 thousands to consolidated net income respectively, while Banco MG Cabo Verde, S.A. generated negative net income of €93.5 thousands, for the 12 month period ending on 31 December 2017.

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 Legal Framework of 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, as amended, establishes the conditions for the access to the activity of credit institutions and financial companies. It largely reflects 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 MoU, which set out the main measures and the main goals to be achieved under the "Financial Assistance Programme" ("**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 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. 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 restructured credit (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, Bank of 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, the Bank of 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 ratio of 10 per cent. required for Core Tier I, as defined in the programme of economic and financial assistance from December 2012 onwards, Bank of 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 leverage 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.

The Board of Directors of Bank of Portugal decided on 3 August 2014 to apply a resolution measure to Banco Espírito Santo, S.A. ("**BES**"). The general activity and assets of BES were transferred, immediately and definitively, to Novo Banco S.A. ("**Novo Banco**"), 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 all collaborators of BES became Novo Banco's collaborators, their rights being safeguarded.

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.

On 30 July 2014, 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 Bank of 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 Bank of Portugal.

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.

Novo Banco is subject to Bank of 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 Bank of 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, S.A. had been negatively affected since the date of its setting-up by additional losses which were related to events predating the resolution date, Bank of Portugal decided to transfer the responsibility for certain issues of non-subordinated bonds issued by the latter and intended for 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 Bank of 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 Bank of 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, Bank of Portugal made a final adjustment to the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, namely including (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, Bank of Portugal asked the European Central Bank to withdraw the authorisation of Banco Espírito Santo, S.A., 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.

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.

As at 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 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.

According to the most recent calculations, the amount payable to Novo Banco in 2018 by the Resolution Fund, in relation to the accounts for the year 2017, amounts to €792 million.

The payment due in 2018 by the Resolution Fund will be carried out 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.

To this end, the Resolution Fund will use, first, the available financial resources, resulting from contributions paid directly or indirectly by the banking sector; these resources will be complemented by a loan to be obtained from the State, under the terms agreed in October 2017. The outstanding amount of this loan has not yet been determined, but it is estimated that it will not exceed €450 million, thus falling short of the annual limit of €850 million foreseen in the 2017 budget.

To date, the Resolution Fund has disbursed a total of €4,900 million for financial support to the resolution measure applied to Banco Espírito Santo, SA, corresponding to the Novo Banco' capital subscription in August 2014. Since that date, the Resolution Fund has not made any other payment related to Novo Banco, but has already entered in its accounts, for 2017, a provision of €792 million, related to the payment due in 2018.

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 was temporarily 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, Bank of 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 have started the process for the sale of the institution.

On 19 December 2015, the Ministry of Finance informed the Bank of 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.

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 adjustments associated with the definition of the perimeter agreed between the Portuguese authorities, European bodies and Banco Santander Totta involved an estimated public support to the amount of €2,255 million intended to cover future contingencies, of which €489 million by the Resolution Fund and €1,766 million directly by the State.

In the first half of 2017, the Portuguese banking sector recorded positive developments in several key dimensions, strengthening its ability to carry out its financial intermediation function consistently. On the one hand, NPLs continued to fall, both in nominal value and as a percentage of loans. On the other hand, profitability recovered, including its recurrent component, although staff costs are still affected in the short term by the operational adjustment processes in some institutions. Lastly, the trend of strengthening prudential capital ratios resumed.

This performance resulted from benign conditions, both in macroeconomic terms, particularly in Portugal, and in the international financial markets. However, it also benefited from the adjustment processes that the institutions have put in place and a set of developments that favour the stabilisation of the banking sector.

In the first half of 2017, the Portuguese banking sector continued the declining activity trend of the last few years. However, this decline was less intense, strongly affected by one of the main banks deconsolidating its international activity. There was a reduction in the portfolio of loans to customers and an increase in the debt securities portfolio. In asset financing, there was an increase in the importance of customer deposits and a decrease in the share of liabilities represented by debt securities. The banking system's liquidity position remained at comfortable levels, and were above regulatory minimums.

The banking system's results returned to positive territory in the first half of 2017. This reflects sharply declining impairments costs and provisions, particularly from credit impairments, with net interest income virtually stabilising. Operating costs continued their downward trend, reflecting the fall in the general and administrative expenses item. Staff costs stabilised, due to the action of nonrecurring items related to certain institutions' adjustment processes. Disregarding these adjustments, staff costs as percentage of assets fell, but to a level slightly above the median for the euro area countries.

Solvency levels continued their strengthening trend in the first half of 2017, recovering from the temporary fall of the end of 2016. The positive developments in the banking system's capital position were linked to capitalisation operations undertaken by some of the system's most important banking institutions.

Banking regulation in Portugal

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 **SSM**, a Single Resolution Mechanism (the "**SRM**"), and a Single Deposit Guarantee System.

Under the SSM, as at November 2014, the ECB is the central prudential supervisor of financial institutions in the euro area and functions as a direct supervisor to the largest banks. National supervisors will 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.

On 26 June 2013, a host of regulatory changes were introduced relating to capital and prudential requirements, known as "**Basel III**" (Regulation No. 575/2013, of the European Parliament and of the Council of 26 June 2013, and Directive 2013/36/EU, of the European Parliament and of the Council of 26 June 2013). This package on capital requirements for banks, the so-called "**CRD IV package**", implements the new global standards on bank capital (commonly known as the Basel III framework) into the EU legal framework. The new rules, passed on 1

January 2014 and to be phased-in through to 2019, aim to ensure banks provide sufficient levels of capital on both a quantitative and qualitative level.

Directive 2013/36/EU includes supervisory powers and general rules on wages, governance and disclosure requirements as well as additional capital buffers. The additional capital buffers to the minimum CET1 4.5 per cent. base value are as follows: (i) a capital conservation buffer of 2.5 per cent.; (ii) a countercyclical capital buffer rate between 0 and 2.5 per cent.; and (iii) a systemic risk buffer of Core Tier 1 assets, pursuant to the conditions to be established by the competent authorities. The systemic risk buffer will range from 1 to 3.5 per cent. for institutions with a global systemic importance (G-SII's) and between 0 and 2 per cent. for O-SIIs.

Aside from the macroprudential systemic risk buffer, these buffers have been gradually applied since 2016.

The Bank of Portugal enjoys extensive supervisory and regulatory powers in relation to all credit and deposit-taking institutions in Portugal. CEMG in particular, classified as a LSI, under the current SSM arrangement, is directly supervised by the Bank of Portugal.

Since the beginning of 2014, prudential indicators have been based on the new legislation of Basel III, namely Directive 2013/36/EU and Regulation (EU) No. 575/2013, both from the European Parliament and of the Council, as well as Notice 6/2013 of Bank of Portugal. In compliance with this legal framework, the Own Funds of CEMG are divided into CET1, Tier 1 and Tier 2.

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" and it will be in force in 2019. The "phasing-in" process is currently in force, and it is on this basis that Bank of Portugal defines and requires the regulatory minimum ratios to be complied with.

There are specific regulations regarding regular audits by the Bank of 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 and returns.

The Bank of 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, Bank of 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 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 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 the Bank of 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.

Since September 2009, there was an increase in the Bank of 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, CEMG has participated in all exercises conducted by the European Banking Authority to evaluate the impacts of Basel III rules' implementation.

At the same time, CEMG has been performing quarterly stress tests exercises taking into account adverse macroeconomic and financial scenarios defined by the Bank of Portugal.

In addition to the stress tests reported to the Bank of Portugal, CEMG 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 Bank of Portugal show that CEMG 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.

CEMG's activities are regulated by the Bank of Portugal, as a credit institution, and by the CMVM, as an issuer with outstanding listed notes. It must comply with the regulations issued by the Bank of Portugal, the RGICSF and with the Portuguese Securities Code *(Código dos Valores Mobiliários)*.

The principal rules with which CEMG 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, CEMG's Own Funds are divided into CET1, Tier 1 and Tier 2. As at 31 December 2017, CEMG's CET1 ratio stood at 13.2 per cent., pursuant to the phasing-in criteria of the CRD IV package and Notice 6/2013 of the Bank of Portugal, as amended by Notice 10/2017. When measured under the full implementation criteria, the CET1 ratio was 11.6 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 CEMG's own funds. The total exposure of CEMG to a counterparty (or such counterparty's group) cannot exceed 25 per cent. of CEMG's own funds and the global value of large exposures cannot be greater than eight times the amount of such own funds. As at 31 December 2017, none of CEMG's exposures exceeded such levels.

(c) Limitations on equity participations in relation to own funds

Direct and indirect participating interests held by CEMG in the share capital of entities not subject to the Bank of Portugal's supervision cannot exceed 15 per cent. (individually) and 60 per cent. (in aggregate) of CEMG's own funds. Participating interests and non-participating interests are, for the purposes of the Bank of 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 31 December 2017, CEMG 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 CEMG 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 31 December 2017, CEMG did not hold any participating interest, directly or indirectly, exceeding such limit.

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. (16.8 per cent. in the Autonomous Region of Azores) or (ii) if the taxpayer is a small or medium enterprise as established in Decree-Law no. 372/2007 of 6 November 2007, 17 per cent. (13.6 per cent. in the Autonomous Region of Azores) for taxable profits up to €15,000 and 21 per cent. (16.8 per cent. in the Autonomous Region of Azores) on profits in excess thereof, to which may be added a municipal surcharge (*derrama municipal*) of up to 1.5 per cent. of its taxable income. Corporate taxpayers with a taxable income of more than €1,500,000 are also subject to State surcharge (*derrama estadual*) of 3 per cent. on the part of their taxable profits that exceeds €1,500,000 up to €7,500,000, of 5 per cent, on the part of the taxable profits that exceeds €7,500,000 and 9 per cent. on the part of the taxable profits that exceeds €35,000,000.

Withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due (except where the 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. The forms currently applicable for these purposes may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

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. The issuance and subscription of Notes should, however, be exempt.

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

However, the proposed FTT remains subject to negotiation between participating Member States and the scope of any such tax is uncertain remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

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 7 June 2018 (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 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 Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the 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 which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of 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 Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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 Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

- 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, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

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. 809/2004 and Commission Delegated Regulation (EU) No. 486/2012 implementing the Prospectus Directive, and other than in compliance with all such laws and regulations;

(b) 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;

(c) 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

(d) 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 qualificados*), 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, which has implemented the Prospectus Directive, 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.

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 2002/92/EC (as amended) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below). 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 / 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.]

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

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 7 June 2018 [and the supplement(s) to it dated [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (as amended, the "**Prospectus Directive**") (the "**Base Prospectus**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive 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:	[Senior/ 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:	[●]
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(i))/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)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	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 each Note:	[●] per Calculation Amount
	(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:		

GENERAL PROVISIONS APPLICABLE TO THE NOTES

20	Form of Notes:	Registered (*nominativas*) and Book-Entry Notes
21	Financial Centre(s):	[*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)*]

THIRD PARTY INFORMATION

[[●] has been extracted from [●]]. 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 trading on the regulated market of the Luxembourg Stock Exchange and listing on the Official List of the Luxembourg Stock Exchange with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] and listing on [*specify relevant official list*] 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 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 16 of the Prospectus Directive.*)

4 YIELD

[*Include for Fixed Rate Notes only*]

Indication of yield:	[●] [Not Applicable]

5 OPERATIONAL INFORMATION

(i) ISIN:	[●]
(ii) Common Code:	[●]
(iii) CFI:	[●]
(iv) FISN:	[●]
(v) CUSIP:	[●]
(vi) CINS:	[●]
(vii) Any clearing system(s) other than Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s) [and address(es)*]]
(viii) Names and addresses of initial Paying Agent(s) (if any):	[●]
(ix) Names and addresses of additional Paying Agent(s) (if any):	[●] [Not Applicable]
(x) 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][No]

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]

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*]]

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 2018 update of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 28 March 2018.

(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 CEMG since 31 December 2017, the date of the last audited consolidated financial statements of CEMG for the financial year ended 31 December 2017.

(4) There has been no material adverse change in the prospects of CEMG since 31 December 2017, the date of the last audited consolidated annual financial statements of CEMG for the financial year ended 31 December 2017.

(5) Neither CEMG 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 CEMG 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 CEMG 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 registered office of the Issuer and at the specified office of the Agent:

(i) the Instrument (which includes the form of the Notes);

(ii) the Agency Agreement;

(iii) the Articles of Association of the Issuer;

(iv) the Annual Report 2017 and the Annual Report 2016;

(v) 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

(vi) 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 CEMG and the latest semi-annual interim accounts of CEMG 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 CEMG for the two years ended 31 December 2017 and 2016.

(12) 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.

GLOSSARY - ALTERNATIVE PERFORMANCE MEASURES

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO

Definition: Sum of the items “Financial assets held for trading”, “Financial assets available for sale” and “Held to maturity investments”.

Relevance: Assess the relative weight of this item from an assets’ structure perspective.

Components and calculus

(thousand euros)

		2016	2017
(a)	Financial assets held for trading	78 168	184 076
(b)	Financial assets available for sale	2 399 504	2 200 893
(c)	Held to maturity investments	1126 125	-
(d)	Securities portfolio (a+b+c)	3 603 797	2 384 969
(e)	Total net assets	21345 909	20 200 024
	% of securities portfolio (d / e)	**16.9%**	**11.8%**

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)

		2016	2017
(a)	Debt securities issued	1920 035	1544 054
(b)	Other subordinated debt	251028	236 193
(c)	Issued debt (a+b)	2 171063	1780 247
(d)	Total liabilities	19 889 411	18 437 103
	% of Issued debt (c / d)	**10.9%**	**9.7%**

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)

		2016	2017
(a)	Securities investment fund	177 402	169 202
(b)	Real estate investment fund	294 436	292 058
(c)	Pensions fund	205 839	220 773
(d)	Bancassurance	45 415	26 913
	Off-balance sheet resources (a + b + c + d)	**723 092**	**708 946**

INCOME STATEMENT

COMPARABLE OPERATING COSTS

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations, deducted by the impacts with the process of re-dimensioning of the operating structure and Collective Company Agreement outcome.
Relevance	Assess the evolution of the operating costs underlying the banking activity, deducted by specific measures such as the process of re-dimensioning the operating structure and the revision of the Collective Company Agreement.
Components and calculus	

(thousand euros)

		2016	2017
(a)	Staff costs	165 505	156 207
(b)	General and administrative expenses	94 024	87 005
(c)	Depreciation and amortisation	24 270	24 809
(d)	Costs related to the redimensioning of the operating structure	(12 096)	-
	Operating costs, excluding costs related to the redimensioning of the operating structure (a + b + c + d)	**295 895**	**268 021**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / 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)

		2016	2017
(a)	Net loans to customers	13 861034	13 029 318
(b)	Customers' resources	12 467 819	12 561040
(c)	Debt securities issued	1920 035	1544 054
	Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**96.3%**	**92.4%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT 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, costs related to the process of redimensioning of the operating structure and the Collective Company Agreement revision, given the greater volatility of the first and the specificity of the latter.
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations and the specific impact of costs related to the process of redimensioning of the operating structure and the Collective Company Agreement revision.
Components and calculus	

(thousand euros)

			2016	2017
(a)	Net banking income		371522	505 267
(b)	Results from financial operations (i + ii + iii)		36 987	70 737
(i)	Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss		(18 194)	(14 807)
(ii)	Net gains / (losses) from available for sale financial assets		53 736	83 622
(iii)	Net gains / (losses) from foreign exchange differences		1445	1922
(c)	Operating costs		283 799	268 021
(d)	Costs related to the redimensioning of the operating structure and revision of the collective bargaining agreement	-	(12 096)	-
	Cost-to-Income, excluding results from financial operations and costs related to the redimensioning of the operating structure ((c - d) / (a - b))		**88.4%**	**61.7%**

COST OF CREDIT RISK

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairments 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)

		2016	2017
(a)	Loan impairments (annualized[1])	182 479	160 711
(b)	Average gross loans to customers[2]	15 318 362	14 738 284
	Cost of credit risk (a / b)	**1.2%**	**1.1%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for period (2015: 365 days/2016: 366 days/2017: 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)

		2016	2017
(a)	Loans and interest overdue by more than 90 days	1371620	1146 222
(b)	Gross loans to customers	15 040 651	14 063 139
	Ratio of loans and interest overdue by more than 90 days (a / b)	**9.1%**	**8.2%**

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)

	2016	2017
(a) Impairment for balance sheet loans	1179 617	1033 821
(b) Loans and interest overdue by more than 90 days	1371620	1146 222
Coverage of loans and interest overdue by more than 90 days (a / b)	**86.0%**	**90.2%**

NON-PERFORMING EXPOSURES / GROSS CUSTOMER LOANS

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)

	2016	2017
(a) Stock of Non-performing exposures	2 805 189	2 304 759
(b) Gross customer loans	15 040 651	14 063 139
Non-performing exposures / Gross customer loans (a / b)	**18.7%**	**16.4%**

COVERAGE OF NON-PERFORMING EXPOSURES 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)

	2016	2017
(a) Impairment for balance sheet loans	1179 617	1033 821
(b) Stock of Non-performing exposures	2 805 189	2 304 759
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**42.1%**	**44.9%**

Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees received

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)

	2016	2017
(a) Impairment for balance sheet loans	1179 617	1033 821
(b) Associated collaterals and financial guarantees	1282 693	970 986
(c) Stock of Non-performing exposures	2 805 189	2 304 759
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**87.8%**	**87.0%**

Restructured loans (Forborne) / Gross customer loans

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Restructured loans (Forborne, according to EBA's definition) in relation to the total loan portfolio.
Components and calculus	

(thousand euros)

	2016	2017
(a) Stock of Restructured loans (Forborne)	2 016 000	2 017 000
(b) Gross customer loans	15 040 651	14 063 139
Restructured loans (Forborne) / Gross customer loans (a / b)	**13.4%**	**14.3%**

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