



BANCO SANTANDER TOTTA, S.A.

(incorporated with limited liability in Portugal)

€12,500,000,000

COVERED BONDS PROGRAMME

Banco Santander Totta, S.A. (the “**Issuer**” or “**BS**”), incorporated under Portuguese law, with head-office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, with a registered and fully-paid share capital of €1,256,723,284.00 and registered under the sole registration and taxpayer number 500 844 321 with the Commercial Registry Office of Lisbon, is an authorised credit institution for the purposes of Decree-law 59/2006, of 20 March 2006 (the “**Covered Bonds Law**”). The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law.

Under this €12,500,000,000 Covered Bonds Programme (the “**Programme**”), the Issuer may from time to time issue mortgage covered bonds (the “**Covered Bonds**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Covered Bonds may be issued in bearer (*ao portador*) or registered (*nominativas*) form (respectively, “**Bearer Covered Bonds**” and “**Registered Covered Bonds**”) and be represented in book-entry form (*forma escritural*). The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €12,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increases as described herein. Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Overview of the Covered Bonds Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together, the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

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

This document comprises a base prospectus for the purposes of Article 135-C of Decree-law 486/99, of 13 November 1999 (as amended, the “**Portuguese Securities Code**”) which implemented Article 5.4 of Directive 2003/71/EC, as amended, which includes the amendments made by Directive 2010/73/EU, to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the “**EEA**”) (the “**Prospectus Directive**”), of Article 26 of the Commission Regulation (EC) No. 809/2004, as amended (the “**Prospectus Regulation**”) and of the relevant Portuguese laws. Application has been made to the Comissão do Mercado de Valores Mobiliários (the “**CMVM**”), as Portuguese competent authority under the Prospectus Directive, the Prospectus Regulation and the Portuguese Securities Code to approve this document as a Base Prospectus for the purpose of admitting Covered Bonds to trading on regulated markets for the purposes of Directive no. 2004/39/EC of the European Parliament and of the Council, of 21 April 2004 on markets in financial instruments, as amended, and further application will be made to Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A. (“**Euronext**”) for the admission of Covered Bonds issued under the Programme to trading on the regulated market Euronext Lisbon (“**Euronext Lisbon**”). References in this Base Prospectus to Covered Bonds being “listed” (and all related references) shall mean that such Covered Bonds have been admitted to trading on Euronext Lisbon or other regulated market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or

markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. Under this Programme, the Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The Covered Bonds have not been, and will not be, registered under the United States Securities Act 1933, as amended (the “**US Securities Act**”).

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended (the “**CRA Regulation**”) will be disclosed in the Final Terms.

The Issuer has been assigned a long-term debt rating of “Ba1” with a stable outlook from Moody’s Investors Service Ltd. (“**Moody’s**”), “BB+” with a credit watch (stable) from Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), “BBB” with a stable outlook from Fitch Ratings Limited (“**Fitch**”) and “BBB (high)” with a stable outlook from DBRS, Inc. (“**DBRS**”). Each of Moody’s, S&P and Fitch is established in the European Union and registered under the CRA Regulation. DBRS is not established in the European Union and has not applied for registration under the CRA Regulation. DBRS’ ratings are endorsed by DBRS Ratings Limited in accordance with the CRA Regulation. DBRS Ratings Limited is established in the European Union and registered under the CRA Regulation. ESMA has indicated that ratings issued in the USA which have been endorsed by DBRS Ratings Limited may be used in the EU by the relevant market participants. The list of registered and certified rating agencies is published by the European Securities and Markets Authority (“**ESMA**”) on its website (<http://www.esma.europa.eu/>) in accordance with the CRA Regulation.

Arranger

Morgan Stanley

Dealers

Santander
Barclays
BofA Merrill Lynch
Deutsche Bank
HSBC
Natixis
UBS Investment Bank

Banco Santander Totta, S.A.
BNP PARIBAS
Credit Suisse
Goldman Sachs International
Morgan Stanley
Société Générale Corporate & Investment Banking
UniCredit Bank

This Base Prospectus is dated 14 July 2016.

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In connection with the issue of any Tranche of Covered Bonds (as defined in *Overview of the Covered Bonds Programme*), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds 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 of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

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

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

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

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

Where information has been sourced from a third party the Issuer confirms that, as far as the Issuer is aware, it has accurately reproduced such information. The Issuer accepts responsibility to the extent that no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer calculates its market share data using official sources of information, governmental or otherwise (as applicable). Where no official sources exist, the Issuer relies on its own estimates.

RISKS SPECIFIC TO THE ISSUER

The Issuer is highly sensitive to changes in the Portuguese economy, which is undergoing a process of significant economic reforms that might increase uncertainty in the short term

The Issuer, together with its consolidated subsidiaries (the “**BST Group**”) is highly sensitive to changes in the Portuguese economy.

As a result of deteriorating economic conditions in Portugal since the financial crisis that began in mid-2007, the Portuguese government requested external assistance from the International Monetary Fund (the “**IMF**”), the European Commission (the “**EC**”) and the European Central Bank (the “**ECB**”, together, the “**Troika**”) in April 2011. The Economic Adjustment Programme (the “**Adjustment Programme**”) agreed with the Troika provided for the availability of financial support to Portugal in the amount of EUR 78 billion over a three year period which was scheduled to end on 17 May 2014. For technical reasons, an extension of six weeks was granted to complete a final assessment and therefore the Adjustment Programme ended on 30 June 2014 following an

announcement by the Portuguese Government that it would conclude and exit the Adjustment Programme without requesting further assistance.

As part of the Adjustment Programme, the Portuguese Government committed to meeting certain budgetary and public debt targets and to implementing a series of structural reforms that, subject to certain assumptions, were intended to reduce the general government deficit from almost 10 per cent. of GDP in 2010 to approximately 3.6 of GDP per cent. in 2014. Excluding one-off measures, the 2015 fiscal deficit is estimated at 3.4 per cent. of GDP, resulting in a primary surplus of 1.5 per cent. of GDP (an improvement from a primary deficit of 8.2 per cent. of GDP in 2010) (Source: Portuguese Public Finance Council). In addition, the Adjustment Programme was intended to lead to a reduction in the Portuguese public debt to GDP ratio after 2013 and contained structural measures and policy guidelines designed to boost the country's competitiveness and improve Portugal's growth rates in the medium term. (Source: *Portuguese Public Finance Council, "Evolução Económica e orçamental até ao final do 1.º trimestre de 2015" - Relatório n.º 6/2015, Julho 2015*)

Portugal complied with the targets imposed by the Troika under the Adjustment Programme and the last assessment thereunder in April 2014 was positive. As at 31 May 2014, Portugal had received EUR 77.7 billion, and it concluded and exited the Adjustment Programme having received a total amount of EUR 78.1 billion.

The performance of the Portuguese economy between 2011 and 2014 was highly dependent on the implementation of the Adjustment Programme. The need to reduce the public deficit was addressed by the adoption of very restrictive budget-oriented policies, with negative impacts on economic activity in the near term. At the same time, the private sector - corporate, financial and households - continued its deleveraging process. Under these circumstances, GDP decreased by approximately 1.1 per cent. in 2013, after having contracted by 4.0 per cent. in 2012 and by 1.8 per cent. in 2011. This contraction was mainly a result of the significant decline in domestic demand, equalling approximately 15.5 per cent. in real and accumulated terms for this three-year period. In 2013, the favourable performance of exports and a stabilisation trend in domestic demand translated into the recovery of economic activity from the second quarter. In 2015, GDP grew 1.5 per cent., after a very modest acceleration in 2014, where economic activity grew 0.9 per cent. On the first quarter of 2016, GDP also grew 0.9%, and for the rest of the year, the estimates are that GDP will grow 1.5 per cent. (Source: Bank of Portugal).

The deleveraging and financial rebalancing of all business sectors resulted in a surplus of external accounts of 1.3 per cent. of GDP in 2014 and 1.7 per cent. of GDP in 2015. The recovery of activity and the fiscal consolidation measures implemented by the Portuguese Government contributed towards a reduction in the general government deficit (as adjusted by the Troika's criteria) to about 3.6 per cent. of GDP in 2014 (Source: *Portuguese Public Finance Council, "Análise das Contas das Administrações Públicas 2015" – Relatório n.º. 5/2016, Maio 2016*). This was below the target of 4.8 per cent. of GDP, and including one-off effects (such as the financing of state-owned companies in the transportation sector and the costs with the legacy assets from Banco Português de Negócios),

the deficit stood at 7.2 per cent. of GDP. Portugal's deficit in previous years has been revised due to the methodological changes implied by the new European System of National Accounts (ESA2010) which stated that the transfer of pension funds no longer has a fiscal impact. For 2015, the general government deficit stood at -4.3 per cent. of GDP.

For 2016, the on-going fiscal developments from 2015 onwards are subject to increased uncertainty because some of the measures implemented during the Adjustment Programme are or may be reversed, including the cuts in wages and pensions for the civil service, which the Constitutional Court of Portugal only accepted for the purposes of the Adjustment Programme.

Given its high level of public debt, despite the successful conclusion of the Adjustment Programme, Portugal will need to continue to pursue a fiscal consolidation strategy and to implement structural reforms that stimulate growth, and simultaneously promote the reduction of budgetary deficit (in the Government budget, the target for 2016 is -2.2 per cent. of GDP) and keeping the public debt ratio on a debt sustainability trajectory. The implementation of such measures requires a continued commitment of the Portuguese Government. Possible changes to governmental policies may have an effect on budget execution and on structural reforms. In addition, significant resistance from unions and/or the Portuguese public to these continuing reforms may put pressure on the Portuguese Government's capacity to implement such measures in the future. Therefore, the successful implementation of the Adjustment Programme does not guarantee, by itself, that the Portuguese economy will move into a period of sustained and robust growth, thus enabling an easing of the financial constraints of the country and boosting the conditions for direct foreign investment. In addition, the success of the Adjustment Programme does not provide immunity from further negative impact from the other Eurozone countries as a result of worsening global economic conditions, including the credit profile of other countries of the European Union ("EU"), the credit-worthiness of business partners, financial or otherwise, or from repercussions of changes to the European institutional framework, which might result in increased or continued investor fears regarding Portugal's capacity to honour its financial commitments.

Portugal growth outlook remains positive, with the recovery of economic activity being on track and showing continuous signs of improvement. For 2016, the Bank of Portugal estimates a growth of 1.5 per cent. and the IMF anticipates a slowdown to 1.4 per cent., although unemployment has been in a declining trajectory since 2013 until 2015.

In 2015, long term yields have declined in all maturity curves, with a further narrowing of spreads *vis-à-vis* the German Government Bonds, and Portugal has been able to maintain its market funding at reduced interest rate levels. During this period, Portugal has anticipated the partial repayment of EUR 8.4 billion to the IMF, given the better conditions prevailing in wholesale markets, in terms of both pricing and maturities.

Market risks remain high and uncertainties continue as to the financing conditions Portugal will face in the future, as the Portuguese sovereign yields may suffer from increased volatility, which might in turn have a negative impact on the funding conditions for the BST Group. During the first

quarter of 2016, as a direct consequence of political discussions regarding government budget approval, yield curve levels have increased as well as the spread against German sovereign yield curve.

Concerns relating to Portuguese public finances and to political and social stability in Portugal have affected and may continue to affect the liquidity and profitability of financial institutions in Portugal, resulting in, amongst other things, lower market values for Portuguese debt; limited liquidity in the Portuguese banking sector and reliance on external funding; increased competition for, and thus cost of, customer deposits; limited credit extension to customers; and a deterioration of credit quality.

The macroeconomic conditions in Portugal could affect the behaviour and the financial condition of the BST Group's clients, and consequently, the demand for the products and services that the BST Group offers. In particular, and despite the recent signs of improvement in the labour market (with a decline of 0.5 per cent. in the unemployment rate to 12.4 per cent. from 2014 to 2015) and the reduction of the number of corporate insolvencies, it is expected that the high unemployment rate, the low profitability, the high level of indebtedness of companies and an increase in company and personal insolvencies will continue to have a negative influence on the BST Group's clients' ability to pay back loans, and, consequently, could cause an increase in overdue loans and impairments related to loans and other financial assets. The occurrence of any of these events could have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

Portugal may be subject to further rating reviews by the rating agencies, with implications on the funding of the economy and on the Issuer's activity

Current ratings of the Portuguese Republic are as follows: S&P: BB+ as of 18 September 2015, with credit watch stable as of 18 March 2015; Moody's: Ba1 as of 27 July 2014, with a stable outlook also as of 27 July 2014; Fitch: BB+ as of 4 November 2011, with a stable outlook as of 4 March 2016; DBRS: BBB (low) as of 30 January 2012, with a stable outlook as of 29 April 2016. DBRS is not established in the EU and has not applied for registration under the CRA Regulation. DBRS' ratings have been endorsed by DBRS Ratings Limited in accordance with the CRA Regulation. DBRS Ratings Limited is established in the EU and registered under the CRA Regulation.

The rating agencies S&P, Moody's, Fitch and DBRS have, on more than one occasion over the last few years, downgraded the long term rating of Portugal, although S&P and Moody's, in September 2015 and 27 July 2014, respectively, revised the rating upwards, to BB+ and Ba1, respectively, while remaining in the speculative grade range. The rating downgrades were due, essentially, to the uncertainties and risks arising from the budgetary consolidation process before and during the Adjustment Programme, the low competitiveness of the Portuguese economy abroad, the external funding difficulties and the sustainability of the public debt dynamics. Due to the close link between the activities of Portuguese banks and the risk perceived in respect of Portugal, downgrades of the

Portuguese sovereign rating ultimately triggered the downgrade of the rating of Portuguese banks. Although the effect of the rating downgrades of Portugal on the funding of Portuguese banks has been less stringent since the ECB has relaxed the rules for the eligibility of assets to be used as collateral for discount operations, any reduction in the rating of Portugal would mean increased haircuts and a reduction of the value of the pool of assets eligible for discount operations with the ECB, in particular with respect to securitisations and covered bonds. Additionally, Portuguese Government bonds would not be eligible for the ECB's Public Sector Purchase Programme, under which the ECB has been buying Portuguese Government Bonds (PGBs) at a pace of 1 billion per month. In any event, if downgrades of the Portuguese sovereign rating occur in the future, the perceived credit risk of Portugal will increase with negative effects on the credit risk of Portuguese banks (including the Issuer) being likely also to take place and, consequently, those banks' funding capacity and profit levels will be impacted. The occurrence of any of these events could have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The BST Group is constrained in its ability to obtain funding in the capital markets and may depend on the ECB for funding and liquidity

The ECB currently makes funding available to European banks that satisfy certain conditions to obtain such funding, including pledging eligible collateral. Notwithstanding the improvement in the ability to access the financial markets, funding conditions for Portuguese banks are still constrained. In this context, despite the ECB's net funding (net of investment) having been reduced to EUR 2.1 billion in December 2015 (December 2014: EUR 3.8 billion) the BST Group's liquidity operations with the ECB continue to be very important.

As at 31 December 2015, the BST Group's portfolio of securities eligible for rediscount with the ECB was of EUR 11.3 billion, compared to EUR 12.3 billion as at 31 December 2014. The ECB establishes the valuation and the eligibility criteria that eligible securities must meet in order to be used on repo transactions with financial institutions. Downgrades of the credit rating of Portugal or of Portuguese companies or changes to the alluded valuations or eligibility criteria can have a negative impact on the portfolio of securities eligible for that purpose and reduce the liquidity lines available from the ECB. Additionally, downgrades of the credit rating of Portugal or of Portuguese companies can result in an increase in haircuts to any eligible collateral or to the non-eligibility of such assets, thereby decreasing the total amount of eligible portfolio. As the Portuguese Government elected not to negotiate a precautionary programme at the end of the Adjustment Programme, the eligibility of Portuguese public debt will depend on the maintenance of an "investment grade" rating by at least one rating agency (DBRS is the only rating agency that attributes an "investment grade" rating to Portugal). In this context, a credit rating downgrade of Portugal by DBRS would result in the non-eligibility of Portuguese public debt for financing with the ECB.

The curtailment or termination of liquidity operations by the ECB, including the end of the ECB LTRO (longer-term refinancing operations) Programme without a substitute or transitional measure,

would force the BST Group to substitute its financing with the ECB with alternative sources of funding which may be available, if at all, at unfavourable conditions or force the BST Group to dispose of its assets, potentially with a high discount to their book values, in order to comply with its obligations and could significantly increase its funding costs.

In March 2016, in pursuing its price stability mandate, the ECB announced additional measures in addition to the cut of its main refinancing rate to from 0.05 per cent. to 0.00 per cent. and the change of the deposit facility rate for banks from minus 0.20 per cent. to minus 0.40 per cent., the ECB also announced three major decisions:

- launch of a new series of targeted longer-term refinancing operations (“TLTRO II”), starting in June 2016, each with a maturity of four years;
- expand the monthly purchases under the asset purchase programme (APP) from EUR 60 billion to EUR 80 billion as well as increase the issuer and issue share limits for the purchases of securities issued by eligible international organisations and multilateral development banks from 33 per cent. to 50 per cent.; and
- include investment-grade euro denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases under a new corporate sector purchase programme (CSPP).

The BST Group has been implementing measures in order to diversify its financing sources beyond the ECB, and has been implementing a deleveraging process by attempting to increase customer funds and reduce customer loans, having resumed its financing in the capital markets through the issue of covered bonds. This situation represents a risk of increasing financing costs, particularly considering the significant difference between ECB funding cost and the cost associated with collecting deposits and financing operations in the market, which may not be completely offset by the process of repricing loans. The occurrence of any of these events could thus have a material adverse effect on the Issuer’s business activities, financial condition and results of operations.

The development of the Eurozone sovereign debt crisis has led to, and may continue to be a source of turbulence for the markets and the development of economic activity in general, impacting the Issuer’s activity, and has also contributed to political instability and tensions between countries

The financial crisis has worsened the budgetary deficit of various European countries due to the need for additional government intervention to support economic activity and stabilise the financial systems. The response to the crisis has been multi-dimensional affecting various areas including relations and cooperation between Member States, reformulation of supervisory mechanisms, common fiscal measures, regulation of the financial system, mechanisms of emergency financial support to Member States, and adoption of exceptional mechanisms concerning monetary policy. These reforms have led to a profound review of the operating regime of the Monetary Union, whose solutions have not always been consensual or given rise to the intended outcomes.

The BST Group's businesses and performance are being, and may continue to be, negatively affected by current local and global economic conditions and adverse perceptions of those conditions and future economic prospects.

2015 was characterised by moderate optimism towards global macroeconomic indicators. The most developed economies, namely the United States and Europe, evidenced economic recovery, though the recovery in Europe remained weak. Despite the stronger growth, rapidly decelerating inflation, which was triggered by the decline in oil prices, led the ECB to implement an additional set of measures. These included an extension of the forward guidance monetary policy, for more targeted liquidity funding to the banking sector based on lending developments and a programme of acquisition of financial assets which initially consisted as ABS and covered bonds and, from March 2016 onwards included from March 2016 onwards included investment-grade euro denominated bonds issued by non-bank corporations.

Despite the moderate growth for the global economy in the near and medium term, sustainable economic growth continues to be a challenge, especially in the peripheral countries of the Eurozone, including Portugal. It is therefore expected that the central banks of the main global economies will maintain expansionary monetary policies to boost demand in those economies. Some factors may negatively affect forecasts for the global economy. These factors include the volatility felt in emerging markets, political tensions in the Middle East, vulnerability to terrorist attacks and the potential increase of interest rates in developed countries given the possible reversal of the monetary policy cycle in the United States.

Deflationary pressures on the Eurozone also represent a risk to the Portuguese economy, as the persistence of low inflation rates can lead to the postponement of consumption decisions as well as to debt increases in real terms. In this context, the ECB will maintain or broaden its expansionist policies. Adverse economic and market conditions pose various challenges and exert downward pressure on asset prices and on credit availability, increase funding costs, and impacting credit recovery rates and the credit quality of the BST Group's businesses, customers and counterparties, including issuers of sovereign debt. In particular, the BST Group has significant exposure to customers and counterparties in the EU (particularly in Portugal) that would be affected by the restructuring of the terms, principal, interest or maturity of their borrowings.

During the next few years, a combination of an anticipated recovery in private sector demand and of a reduced pace of fiscal austerity in Europe and the United States is likely to result in a return by central banks towards more conventional monetary policies, following the recent period that has been characterised by highly accommodative policies, which have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. The possibility of a withdrawal of such programmes or slowing of monetary stimulus by one or more governments could lead to a generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher levels of unemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices and consequently to an increase in delinquency rates and default rates among customers. Any further slowing of monetary stimulus and the actions and commercial

soundness of other financial institutions have the potential to impact market liquidity. The adverse effect on the credit quality of the BST Group's customers and counterparties, coupled with a decline in collateral values, could lead to a reduction in recovery rates and high levels of impairment provisions, which could have a material adverse effect on the BST Group's business, financial condition and results of operations.

Additionally, on 23 June 2016 the United Kingdom held a referendum to decide on the United Kingdom's membership of the European Union. The United Kingdom vote was to leave the European Union. There are a number of uncertainties in connection with the future of the United Kingdom and its relationship with the European Union. The negotiation of the United Kingdom's exit terms is likely to take a number of years. Until the terms and timing of the United Kingdom's exit from the European Union are clearer, it is not possible to determine the impact that the referendum, the United Kingdom's departure from the European Union and/or any related matters may have on the business of the Issuer. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Covered Bonds and/or the market value and/or the liquidity of the Covered Bonds in the secondary market.

Any significant deterioration in the global economy, including in the credit profiles of other EU Member States or in the solvency of Portuguese or international banks, or other economic changes in the Eurozone could:

- negatively affect the capacity of the Portuguese Republic to satisfy its financing needs;
- have a material adverse effect on the value of portfolios of public debt securities of peripheral Eurozone countries (as of 31 December 2015, BST held approximately EUR 4.8 billion of Portuguese sovereign debt);
- have a significant adverse effect on the BST's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the BST's ability to obtain liquidity; and
- negatively affect BST's capital position, its operational results and its financial condition.

The strengthening of the monitoring mechanisms and settlement of fundamental macroeconomic imbalances in the EU are unilateral and innovative, but stringent, solutions for the regulatory and supervisory framework, but in the short term may constrain the economic environment, with negative consequences for banking activity

The heads of state and government of the EU agreed (not unanimously) at a summit on December 2011 to strengthen the governing mechanisms of the EU, through intergovernmental agreements, establishing, amongst other measures, the reinforcement of the early budget control mechanisms and submission of Member States to new budgetary rules. The new rules, which must be approved by each Member State, stipulates that the structural public deficit should converge to around 0.5 per

cent. of GDP and a compulsory reduction of public debt below 60 per cent. of GDP at a rate of 1/20 of the rate per year (on average over three years). These are demanding objectives which mean, also in the case of Portugal, an extension of the period of tight budgetary discipline and the resulting effects of limiting the capacity of Portugal to stimulate economic growth by increasing expenditure or reducing the tax burden, with adverse consequences on the Issuer's capacity to generate profit.

In addition, there is uncertainty around the ability of specific governments to maintain or strengthen government support to the financial systems of Member States, to ensure the solvency of various banks and to reorganise the structure of the banking sector in accordance with the constraints implied by the scarcity of regular funding, weakness of the balance sheet structure and prevalence of risks to asset quality (this is partly being offset by the entry into force of Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014 (the "**BRRD**"), with the creation of a Bank Resolution Fund, from 2016 onwards). These conditions may have a material adverse effect on the assets price, credit risk of counterparties including sovereign States, pressure on the funding costs, changes in the market's competition structure and loans availability, which will generally affect the activity and results of Portuguese banks and in particular, the Issuer. Therefore, the occurrence of any of these events could have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The Issuer is exposed to depreciation of real estate assets

Mortgage lending represented around 50.4 per cent. of the Issuer's credit portfolio in 2015. Therefore the Issuer is highly exposed to the Portuguese real estate market, both directly through assets related to its operations or obtained in lieu of payment, and indirectly through properties securing loans or through funding of real estate promotion projects. This context makes the Issuer vulnerable to a depression in the Portuguese real estate market.

Accordingly, significant changes in the economic conditions occurring in the real estate sector due to economic or political conditions beyond the Issuer's control or significant devaluations of prices in the Portuguese real estate market may lead to an increase in non-performing loans and to a decrease in the value of the loan portfolio of the BST Group. That scenario would lead to impairment losses in the assets held directly by the Issuer and lower recovery on mortgage loans and in the pension fund in case such mortgage loans need to be enforced and the relevant properties sold to satisfy BST's credit entitlements. The occurrence of any of these events would have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The Issuer may be subject to an exception regime for the protection of mortgage lenders in serious economic failure

As a result of the current economic environment, non-performing loans have increased; the segment that experienced greater impact in this respect being residential mortgage loans.

In this context, legislation has been passed to facilitate the restructuring of mortgage loans, ensure a closer monitoring of potential default situations and implement measures aimed at avoiding immediate enforcement of mortgage loans. The implementation of any such legislative measures, and of any other regulatory or self-regulatory initiatives that may be passed in the future, could lead to limitations in the level of spreads and commissions charged, as well as to an increase in the Issuer's credit impairments. Any exception regime that may be adopted, including the possibility that any such rules may require that, in some cases, financial institutions will be obliged to accept the repossession of assets as a way to settle clients' debts, could have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The turbulence in the main financial markets, specifically the interbank and debt markets, could affect the Issuer's liquidity position and its ability to increase loan volumes

Since the second half of 2007, the turbulence that has characterised global credit markets, together with the repricing of credit risk and deterioration of real estate markets, in particular in the United States, have contributed to a worsening of the conditions in the financial markets and have had a negative impact on investor confidence. This has negatively affected the interbank markets and debt issues in terms of volumes, maturities and loan spreads. Among the global credit markets, the sectors that have faced the greatest difficulties due to the current crisis are those related to sub-prime mortgage backed securities, asset backed securities, collateralised debt obligations, leveraged finance and complex structured securities. These conditions have resulted in historic volatility, little or no liquidity, widening of credit spreads and lack of price transparency in certain markets. These conditions have also resulted in the bankruptcy of a large number of financial institutions in the United States and Europe. It is difficult to predict how long these conditions will remain and how the Issuer's investments and markets will be affected.

In particular, Portuguese banks have not yet regained full access to wholesale funding markets and continue to depend on funding received from the ECB, as the ratings for most of the institutions are still below investment grade. Following Portugal's exit from the Adjustment Programme without any need for additional assistance, market conditions have improved, both in terms of volumes and funding costs/spreads. Some banks have been able to issue senior unsecured bonds, but most of the funding consists of covered bonds, which have a lower funding cost than senior bonds. The Portuguese Republic has regained market access, even though three of the agencies (Fitch, Moody's and S&P) continue to attribute a rating to Portugal below investment grade. In 2015, the Portuguese Republic issued two new benchmark bonds (with 6 years and 10 years maturities), with improved demand and a more diversified investor base. In any case, increased pressure on the deleveraging effort and dependence on ECB funding is expected to occur if access to the markets remains difficult or becomes more difficult.

The decision by the Bank of Portugal, in late December 2015, regarding the transfer back to Banco Espírito Santo, S.A. from Novo Banco, S.A. some of the senior unsecured debt issues has affected the risk perception about the Portuguese banking sector, and led to the closure, again, of the wholesale markets for unsecured debt for most of Portuguese issuers.

Although the Portuguese financial system has shown great resilience since the beginning of the economic and financial crisis, having ensured the normal funding of the economy during this period, the tensions associated to the sovereign debt crisis and to the limited access to international wholesale funding markets have exerted major restrictions on banking activity, forcing the institutions to resort to funding from the ECB and to trying to find funding from more stable domestic sources. In this context, the management of liquidity risk has gained increasing relevance.

Without prejudice to the liquidity risk management and mitigation policies implemented by the Issuer, the deterioration of market circumstances and continuation of sovereign debt risk at high levels might adversely affect the BST Group's liquidity position, as a result of the reduction of the pool of assets eligible for discount operations with the ECB, higher funding costs and lower capacity to increase the loan and asset portfolio. These circumstances could be further aggravated by persistent volatility in the financial sector and capital markets, or due to solvency issues with one or more institutions, or even their default, which could lead to significant liquidity problems in the market in general, losses and defaults by other institutions.

Furthermore, it is not possible to predict which structural and/or regulatory changes might arise from current market circumstances or if such changes could have a negative impact on the Issuer. If current market conditions continue to deteriorate, especially if that happens for an extended period of time, this could lead to the reduction of credit availability, lower credit quality and increased default on debt, which could have a material adverse effect on the Issuer's business activity, financial condition and results of operations.

Potential impact of resolution measures applied by the Bank of Portugal

Decree-law 31-A/2012, of 10 February 2012, introduced the legal framework for the adoption of resolution measures into the General Regime for Credit Institutions and Financial Companies (the “**Credit Institutions General Regime**”, enacted by Decree-law 298/92, of 31 December 1992, as amended). Such resolution framework has been further amended, namely by Decree-law 114-A/2014, of 1 August 2014, Decree-law 114-B/2014, of 4 August 2014, and by Law 23-A/2015, of 26 March 2015 (“**Law 23-A/2015**”).

The reorganisation regime previously in force governing credit institutions was extensively reviewed and was indeed replaced by a new approach of the Bank of Portugal as regards the intervention on credit institutions and investment firms in financial distress. The measures set out in the new regime aim at recovering or preparing the orderly winding-up of credit institutions and certain financial companies in situations of financial distress. The new toolbox includes three stages of intervention by the Bank of Portugal: preparatory and preventive measures, prior supervision intervention, and instruments and powers of resolution. The implementation of these measures and the exercise of these powers will directly affect the rights of shareholders and creditors.

Credit institutions will be 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 BST Group's expected returns and additional indirect impacts through changes to such institutions' business activities.

Furthermore, resolution measures may be applied when a credit institution or an investment firm covered by the resolution regime does not meet, or is at serious risk of not meeting the requirements for the maintenance of its licence, and when the implementation of such measures is considered imperative for the pursuance of at least one of the following objectives:

- Ensure the continuity of essential financial services;
- Prevent systemic risk;
- Safeguard public funds and taxpayers' interests;
- Safeguard depositors' confidence.

For the purposes of applying resolution measures, an institution is considered to be at serious risk of not meeting the requirements for the maintenance of its licence when one of the following situations occurs, or when sufficient reasons exist to suggest that one of the following situations may occur in the short run:

- The institution has losses that may exhaust its capital stock;
- The institution's assets have become lower than its liabilities; or
- The institution is unable to meet its obligations.

The resolution measures include, specifically:

- the total or partial sale of the assets and liabilities of the distressed financial institution to one or more financial institutions authorised to operate in the market;
- the bail-in tool which may be generally applied to all liabilities of an institution subject to resolution, with certain exceptions, which include secured credits, such as the Covered Bonds. However, to the extent that the Cover Pool is insufficient to meet all claims of the holders of Covered Bonds, such holders of Covered Bonds will have an unsecured claim over the Issuer for the uncovered claims, thus being subject to bail-in;

- 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.

In such case, the newly incorporated bridge bank shall be funded through the Resolution Fund, in accordance with articles 145-P(3) and 153-C of the Credit Institutions General Regime¹. The Resolution Fund created by Decree-Law no. 31-A/2012, of 10 February 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 an annual basis, as was set out in Decree Law no. 24/2013, of 19 February and later revoked and set out by Law 23-A/2015 and the revenue arising from the contribution over the banking sector. The financial assistance provided by the Resolution Fund may also 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 Deposit Guarantee Fund (Fundo de Garantia de Depósitos) may also provide financial assistance for the implementation of resolution measures, but only in the case of the transfer of deposits placed with the institution in distress to another credit institution 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 costs 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.

Both the Credit Institutions General Regime (article 145-D(1)) and the BRRD (article 34) generally determine that the shareholders of the institution under resolution bear losses in the first instance and creditors of the institution under resolution bear losses after the shareholders in accordance with the order of priority of their claims.

¹ With the enactment of the Single Resolution Mechanism and the Single Resolution Fund, contemplated in 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 a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as from 1 January 2016 the Issuer contributes to the Resolution Fund and the Single Resolution Fund. Upon the latter having reached the minimum capitalisation required (which is expected to happen in 2023), it is anticipated that the contributions of the Issuer, in an amount that at this stage is unknown, will be made exclusively to the Single Resolution Fund. Notwithstanding there is still the risk that even when the minimum capitalisation required is met, the Single Resolution Fund does not have sufficient capital to meet the resolution of a credit institution or investment firm.

Following the decision to apply a resolution measure to Banco Espírito Santo, S.A. (“**BES**”), most of its business was transferred to a transition bank, called “Novo Banco, S.A.” (“**Novo Banco**”), created especially for that purpose and capitalised by the Resolution Fund, as created by Decree-law 31-A/2012, of 10 February 2012, this is resourced from payments of contributions due by the institutions participating in the Resolution Fund and contributions from the Portuguese banking sector. The abovementioned Decree-law provides that if such resources are insufficient for fulfilment of its obligations then other financing means can be used, such as special contributions from credit institutions or loans granted.

In the specific case of the resolution measure relating to BES, the Resolution Fund provided EUR 4.9 billion to pay up the share capital of Novo Banco. Of this amount, EUR 300 million corresponded to the Resolution Fund’s own financial resources, resulting from the contributions already paid by the participating institutions and from contributions of the banking sector, EUR 3.9 billion corresponded to a loan granted by the Portuguese State to the Portuguese resolution fund which will subsequently be repaid and remunerated by the Resolution Fund and EUR 700 million corresponds to a banking syndicated loan made to the Resolution Fund, with the contribution of each credit institution depending on various factors, including their size. As of 31 December 2015, BST’s share of that loan was EUR 116.2 million, which corresponds to 16.6 per cent. of said loan.

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, also determines that the special contributions should be distributed proportionally among participating institutions, according to the respective level of participation in the Resolution Fund, determined by the ratio between its last annual contribution and the total annual contributions of its members. Against this background, given the relative size and composition of BST’s balance sheet, the Issuer estimates that on the date of this Base Prospectus, BST’s participation in the Resolution Fund to be around 10 per cent.. Such share in the Resolution Fund will vary from time to time, according to BST’s liabilities and own funds, when compared to the other participating institutions.

The periodic contributions to the Resolution Fund are determined by the application of a contributive rate to the end of month outstanding balance of liabilities, deducted by own funds and deposits already included in the Deposit Guarantee Fund, as set by the Bank of Portugal by regulatory instruction. For 2016, pursuant to the instruction (*Instrução*) 19/2015 issued by the Bank of Portugal, the rate has been set up at 0.02 per cent.

According to the legal framework in force, after the sale of Novo Banco’s equity to a privately-owned shareholder, the proceeds from that sale are expected to be primarily allocated to repaying the Resolution Fund for all the amounts provided for the establishment and development of Novo Banco’s business, including a remuneration corresponding to the financing costs borne by the Resolution Fund, plus a share to cover the administrative and operational costs of such support.

The amount received by the resolution fund from the sale of Novo Banco’s equity will necessarily be used to repay the loans obtained. It has been stipulated by contract that the Resolution Fund may

only repay other liabilities after the loan from the Portuguese State has been fully repaid and remunerated.

In the event that the proceeds from the sale of Novo Banco exceed the sum of the amounts provided by the Resolution Fund, the respective surplus will revert to BES, or to its insolvent estate, if in the meantime BES's authorisation has been revoked.

The application of the resolution measure to BES was, among others, subject to the principle that upon application of the resolution measure no creditor should incur losses greater than those that it would have incurred in a winding up under normal insolvency proceedings. To ascertain whether such greater losses exist or not, the Bank of Portugal appointed Deloitte Consultores, S.A. to make an assessment in this respect, as a result of which a creditor may be entitled to compensation for having borne any such greater losses. Should such greater losses exist, then the Resolution Fund (which, as mentioned above, is participated in by, among other Portuguese credit institutions, the Issuer) shall pay the relevant compensation. On 6 July 2016, the Bank of Portugal publically disclosed on its website (www.bportugal.pt) an executive summary of the results of Deloitte Consultores, S.A. assessment.

In the event that the proceeds from the sale of Novo Banco's equity are insufficient to repay the amounts already provided by the Resolution Fund, then the Resolution Fund will use its own receipts to finance the relevant shortage. As previously mentioned, these receipts are obtained from annual regular contributions to the Resolution Fund (including the contribution from the Portuguese banking sector) and any special contributions, which until the sale of Novo Banco may also be used, notably, to make additional capital contributions to Novo Banco in case the same becomes required. The definition of the financing structure of a possible shortage (in terms of type of contribution, its distribution in time, and any recourse to temporary loans) will critically depend on the amount of such hypothetical shortage. Although it is expected that the financing will be structured in such a manner as not to jeopardise the solvency of any bank and to preserve financial stability in the Portuguese economy, at this stage it is not possible to ascertain if said proceeds will be sufficient or not, and, in case these are not sufficient, the specific impact and amount of any special contribution from the Portuguese banking sector, including the Issuer, is also uncertain.

In January 2013, the recapitalisation of Banif – Banco Internacional do Funchal, S.A. ("**Banif**") started with an injection by the Portuguese State of EUR 1,100 million (EUR 700 million under the form of special shares and EUR 400 million under the form of hybrid instruments). Banif's recapitalisation plan also included a capital increase by private investors in the amount of EUR 450 million, which was concluded in June 2014. Since then, Banif reimbursed the Portuguese State of EUR 275 million of hybrid instruments, but was not able to reimburse a EUR 125 million tranche in December 2014.

Banif's sale process was initiated in 2015. However, on 19 December 2015 the Portuguese Ministry of Finance informed the Bank of Portugal that the voluntary sale process was not feasible and thus the sale would have to be made in the context of a resolution procedure.

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

Banif was sold to BST for the amount of EUR 150 million. Accordingly, the overall activity of Banif was transferred to BST, except the assets transferred to an asset management vehicle (previously Naviget, S.A., and later renamed Oitante, S.A.) set up in the context of the application by the Bank of Portugal of the aforementioned resolution measure.

Given the acquisition of the referred activity of Banif, some of the financial information disclosed in this Base Prospectus does not include the effects of said acquisition of Banif, since it only occurred on 20 December 2015. Such financial information in the management report is unaudited and has been extracted from BST's 2015 annual report.

As referred in this risk factor, 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 BST. No details can yet be anticipated on the potential impact which the resolution of Banif and/or the resolution of BES, as described above, may have on BST.

The EU has adopted a deposit guarantee scheme directive which is applicable throughout the EU that may result in additional costs to the BST Group

On 3 July 2014, Directive 2014/49/EU providing for the establishment of deposit guarantee schemes (the “recast DGSD”) and the harmonization of the deposit guarantee systems throughout the EU entered into force. The recast DGSD was recently transposed in Portugal through Law no. 23-A/2015, of 27 March 2015, amended by Law no. 66/2015, of 6 July 2015.

As a result of these developments, the BST Group may incur additional costs and liabilities. The additional indirect costs of the deposit guarantee systems may also be significant, even if they are much lower than the direct contributions to the fund, as in the case of the costs associated with the provision of detailed information to clients about products, as well as compliance with specific regulations on advertising for deposits or other products similar to deposits, thus affecting the activity of the relevant banks and consequently their business activities, financial condition and results of operations.

Although the Issuer believes that it is in a position to continue to compete in the Portuguese banking market, there is no assurance that it will be able to compete effectively in the banking

markets in which it operates, or that it will be able to maintain or increase the level of its results of operations

Structural changes in the Portuguese economy over the last few years have significantly increased competition in the Portuguese banking sector. These changes principally relate to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the euro. Competition has increased further with the emergence of non-traditional distribution channels, such as internet and telephone banking.

The BST Group faces intense competition in all of its areas of operation (including, among others, banking, leasing, insurance, investment banking, specialised credit and asset management). The competitors of the BST Group in the Portuguese markets are Portuguese commercial banks, savings and investment banks and foreign banks, many of which have recently entered the Portuguese market. The principal competitors of the BST Group in the banking sector (ranking in terms of assets as of 31 December 2015) are Caixa Geral de Depósitos, the Millennium BCP Group, the Novo Banco Group and the BPI Group.

Over the last few years, mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process that may continue.

Although the Issuer believes that it is in a strong position to continue to compete in the Portuguese market, there is no assurance that it will be able to compete effectively in the markets in which it operates. Failure by the Issuer to compete effectively will have a material adverse impact on the Issuer's business activity, financial condition and results of operations.

Additionally, the business, results and financial condition of the Issuer have been and will continue to be affected by the current crisis in the global financial markets and the global economic outlook. The results and financial condition of the Issuer have been, and its respective future results and financial condition are likely to continue to be, affected by depressed asset valuations resulting from poor market conditions. The actual or perceived failure or worsening credit of other financial institutions and counterparties could adversely affect the Issuer.

The Issuer could be adversely affected by regulatory changes or other political developments in Portugal, the EU or those foreign countries in which it operates

The Issuer operates in a highly regulated industry and, accordingly, the Issuer could be adversely affected by regulatory changes in Portugal, the EU or those foreign countries in which it operates, or by other political developments in or affecting Portugal, the EU or such foreign countries. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, taxation or other policies can be unpredictable and are beyond the control of the Issuer.

The banking activities of the BST Group are subject to extensive regulation by the ECB, the EBA and the Bank of Portugal, mainly relating to liquidity levels, solvency and provisioning.

The minimum cash requirement applicable to Portuguese banks is currently fixed on a general basis at 1 per cent. of the total amount of deposits, although certain situations are exempt from such requirement in accordance with Regulation (EC) No. 1745/2003 of the ECB, as amended. An increase in the minimum cash reserves or a decline in the rate accrued on those cash reserves would have an adverse impact on the net income of the BST Group.

Portuguese banks were required to maintain a core tier 1 solvency ratio, in accordance with Regulatory Notice (*Aviso*) 3/2011 of the Bank of Portugal, as amended, of at least 10 per cent. by 31 December 2012. Generally, the solvency ratio is defined as Tier I Capital plus Tier II Capital divided by risk-weighted assets. The solvency ratio of the BST Group complies with the Bank of Portugal rules and is in accordance with the Basel II regulatory framework and the application of:

- (i) the internal notations method (advanced by IRB) for calculating the capital requirements for credit risk in relation to a substantial part of the relevant loan portfolio;
- (ii) the IRB approach for calculating market risk of most derivatives and the standardised approach for some exposures in the trading book and derivatives; and
- (iii) the basic indicator method for calculating the capital requirements in relation to operational risk.

On 22 July 2013, EBA issued a new Recommendation on capital preservation, revoking the 2011 Recommendations. Accordingly, banks shall keep a capital amount (in Euros) necessary to comply with the capital requirements as set out in the previous Recommendation at 30 June 2012. The possibility to maintain a lower capital level is also taken into account, provided that a 7.0 per cent. Common Equity Tier 1 ratio is fulfilled according to the Directive 2013/36/EU, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (“**Directive 2013/36/EU**”) fully implemented rules.

On 23 October 2013, the ECB announced the details *vis-à-vis* the complete assessment to be done as prelude to its upcoming supervision responsibilities within the single supervisory mechanism. The assessment began in November 2013 and lasted for 12 months. The reference ratio value for such assessment was 8 per cent. Common Equity Tier 1, according to the Directive 2013/36/EU definitions taking into account transitional arrangements.

As of 31 December 2015, BST had a Tier I Capital and Core Capital of 15 per cent. and 13.9 per cent. respectively, which compares with 15.3 per cent. and 13 per cent. respectively in the equivalent period of 2014. Following the recommendations issued by the Basel Committee on Banking Supervision regarding the amendments to the then applicable rules on the calculation of capital requirements for international banks (known as Basel II), a new set of recommendations

usually known as Basel III was finalised on 1 June 2011. This includes some amendments to the capital ratios as well as the inclusion of leverage and liquidity ratios.

The implementation of Basel III in the EU has led to the approval of the package comprised by Directive no. 2013/36/EU, which was implemented in Portugal by means of Decree-law 157/2014, of 24 October 2014, and Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 (“**Regulation (EU) 575/2013**” and together with the CRD IV, “**CRD IV/CRR**”), in place since 1 January 2014 and will imply a reinforcement of the capital requirements of the banks and changes to the definition of regulatory capital, and together established the Basel III regulatory framework in the Portuguese jurisdiction. These measures may have a significant impact in the Issuer’s capital and in its assets and liabilities management.

By 31 December 2013, EU Member States were required to adopt and publish the laws, regulations and administrative provisions necessary to comply with Directive 2013/36/EU.

Directive 2013/36/EU includes general rules and supervision powers, wages, governance and disclosure requirements, as well as an introduction of 5 additional capital buffers:

- a capital conservation buffer of 2.5 per cent. of risk-weight assets;
- countercyclical capital buffer rate between 0 and 2.5 per cent. of Core Tier 1 assets, pursuant to the conditions to be established by the competent authorities; 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: between 0 and 2 per cent.; and iii) macroprudential systemic risk: between 1 and 3 per cent. or between 3 and 5 per cent., depending on the economical conjecture.

These buffers, apart from the macroprudential systemic risk, shall apply gradually from 2016, although Member States may anticipate their application.

The Bank of Portugal, in the exercise of its powers as national macro-prudential authority, has decided to set the countercyclical buffer rate at 0 per cent. of the total risk exposure amount, with effect from 1 January 2016 and to prevail in the first quarter of the year. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of Bank of Portugal or the European Central Bank (Single Supervisory Mechanism), as applicable. The Bank of Portugal will review this decision on a quarterly basis.

Also in accordance with Article 145-Y of the Credit Institutions General Regime, financial institutions will be required to meet a minimum requirement for own funds and eligible liabilities (known as MREL) capable of being bailed in. The requirement is foreseen to be equal to a percentage of total of liabilities and own fund of the financial institution. The Bank of Portugal, in the exercise of its powers as national macro-prudential authority and having duly notified the

European Central Bank under Article 5 of Council Regulation (EU) No 1024/2013, of 15 October 2013, which did not object to the present decision, 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, has decided to impose capital buffers to credit institutions identified as systemically important institutions (“**O-SIIs**”). For that purpose, as set out in the legal and regulatory provisions, the Bank of Portugal published on 29 December 2015 a table with the names of the banking groups identified as O-SIIs with respect to 2015 and the respective capital buffers, as a percentage of the total risk exposure amount. These buffers shall consist of Common Equity Tier 1 capital on a consolidated basis and shall be applicable from 1 January 2017 onwards. In the case of the Issuer, the buffer applicable to the holding company (Santander Totta, SGPS, S.A.) is 0.50 per cent. Simultaneously, the Bank of Portugal also published a more detailed document on the methodology for identification and calibration of the O-SIIs buffer.

In order to comply with this ratio, BST Group may be requested in the future to issue additional liabilities subject to bail in provisions.

Considering the minimum capital levels already defined on both the Regulation (EU) 575/2013 and in the alluded Decree-law that implemented Directive 2013/36/EU, banks shall comply with:

- a minimum Common Equity Tier 1 ratio of 7 per cent. (4.5 per cent. base value and an additional 2.5 per cent. of capital conservation buffer);
- a minimum Tier 1 ratio of 8.5 per cent. (6 per cent. base value and an additional 2.5 per cent. capital conservation buffer); and
- a total ratio of 10.5 per cent. (8.0 per cent. base value and an additional 2.5 per cent. capital conservation buffer).

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

Regulatory notice (*Aviso*) 6/2013 issued by the Bank of Portugal regulates the transition provided in Regulation (EU) 575/2013 and has determined a minimum Common Equity Tier 1 ratio of 7.0 per cent. calculated with transitional arrangements and to be complied from 1 January 2014 onwards.

In accordance with Law 63-A/2008, of 24 November 2008, as amended, as referring to the reinforcement of financial stability of credit institutions, namely to capitalisation measures through public investment – the Portuguese Government may, by ministerial order, define the level of own funds of credit institutions in such a capitalisation context.

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 a material adverse effect on the results of operations of the BST Group.

Prior to assuming full responsibility for supervision under the Single Supervisory Mechanism (SSM) in November 2014, the ECB announced its intention to carry out a comprehensive assessment that started in November 2013 and ended in October 2014. This assessment involved Banco Santander, S.A., a credit institution authorised and functioning under Spanish law to which the Issuer consolidates its accounts. Such assessment involved (i) an asset quality review, which was expected to enhance the transparency of bank exposures by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions, and (ii) a stress test to be performed in close cooperation with the EBA, which examined the resilience of banks' balance sheets to stress scenarios. This comprehensive assessment concluded with an aggregate disclosure of the outcomes as well as bank level data, together with any recommendations for supervisory measures.

New requirements related to the liquidity ratios may affect profitability

Basel III recommendations endorse the implementation of liquidity coverage ratios of short and medium/long term, known as Liquidity Coverage Ratio and Net Stable Funding Ratio. The Liquidity Coverage Ratio, which was expected to be implemented gradually starting from 2015, addresses the sufficiency of the high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. The Net Stable Funding Ratio, to be implemented in 2018, will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over one year period. In the present year, the financial institutions should maintain in its own portfolio high quality liquidity assets corresponding to 60 per cent. of the net assets' exits in the following 30 days.

The Liquidity Coverage Ratio was 230 per cent. at the end of December 2015 (146 per cent. the year before). The Issuer does not yet disclose the Net Stable Funding Ratio considering that the applicable calculation rules are not fully regulated by the competent regulatory authorities. The minimum Liquidity Coverage Ratio applicable as of 1 January 2015 is 60 per cent. and the Net Stable Funding Ratio should be equal to at least 100 per cent. on an ongoing basis.

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

The Issuer's short term liabilities to its customers may exceed its highly liquid assets

The Issuer's primary source of funds has traditionally been its retail deposit base (savings, current and term deposits). From 2003 to 2006, in a context of low interest rates, client resources were channelled away from traditional on-balance sheet products, such as term deposits, into off-balance resources, such as mutual funds and financial capitalisation insurance products, which had higher expected returns, but also a higher risk profile (although with principal protection at redemption). This change in risk profile was also encouraged by the Issuer itself, as such products were a good source of fees and commissions.

In late 2010 and early 2011, due to the uncertainty brought by the global crisis there was a shift back to safer products such as deposits. The lack of other financing sources caused by the liquidity restrictions faced by Portuguese banks in international money markets has also led the Issuer (as well as the other Portuguese banks) to increase the interest rates paid on deposits thus reinforcing the attractiveness of these products. The need to deleverage has also prompted the Issuer to pursue active policies to bring its off-balance sheet resources back into the balance sheet further increasing its deposits base (leverage is measured through the loans to deposits ratio).

The Issuer's other funding sources include medium and long-term bond issues, commercial paper and medium-term structured products. In addition, the Issuer has originated receivables for some securitisation transactions that are still in place. The Issuer has also borrowed money in the money markets. Since 2010, however, when the sovereign debt crisis in Europe worsened, resulting in Greece and other countries requesting financial support from the EC/IMF/ECB, Portuguese banks, including the Issuer, have increased their funding with the ECB, given the tighter conditions in accessing the wholesale markets. As at 31 December 2015, BST had a net exposure to ECB funding of around EUR 2.1 billion (as at 31 December 2014 the corresponding value was below EUR 3.8 billion).

BST complies in full with the Bank of Portugal's regulations in respect of liquidity and its liabilities to its customers as at 31 December 2015 (including mutual funds) were EUR 31,9 billion, thus lower than net loans (including guarantees) which amounted to EUR 35.6 billion, as at the same date. This trend may however revert with the predictable further rise in deposits and fall in new loans granted inherent to the deleveraging process.

Since the Issuer relies on the aforementioned sources for funding, there is no assurance that, in the event of a sudden or unexpected shortage of funds in the market in which the Issuer operates, the Issuer will be able to maintain its levels of funding without incurring higher funding costs or the liquidation of certain assets. Additionally, as the Issuer is impacted by any changes that may occur in the requirements set by the ECB in its refinancing operations, if the Issuer is unable to borrow sufficient funds to meet its obligations to its customers and other investors, the Issuer's business activities, financial condition and results of operations will be materially adversely affected.

Risks concerning borrower credit quality and general economic conditions are inherent in the Issuer's business

Risks arising from changes in credit quality and the recoverability of loans and amounts due from 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 economic conditions, or arising from systemic risks in the financial systems, could reduce the recoverability and value of the Issuer's assets and require an increase in the Issuer's level of provisions for credit losses. This has been the trend in recent years with impairment and other provisions of EUR 236.2 million in 2015 (EUR 192.5 million in 2014). Deterioration in the economy could reduce the profit margins for BST's banking and financial services businesses (net

interest income amounted to EUR 560 million in 2015, compared to EUR 543.5 million in 2014) which in turn could have a material adverse effect on the business activities, financial condition and results of operations of the Issuer.

The financial problems faced by the Issuer's customers could adversely affect the Issuer

Market turmoil and economic recession could materially adversely affect the liquidity, businesses and/or financial conditions of the Issuer's customers, which could in turn further increase the Issuer's non-performing loan ratios, impair the Issuer's loan and other financial assets and result in decreased demand for borrowings in general. In a context of continued market turmoil, economic recession and increasing unemployment coupled with declining consumer spending, the value of assets collateralising the Issuer's secured loans, including homes and other real estate, could decline, which could result in impairment of the value of the Issuer's loan assets. Any of the conditions described above could have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The Issuer may generate lower revenues from commissions and fee-based businesses

Market downturns are likely to lead to declines in the volume of transactions that the Issuer executes for its customers and, therefore, to declines in the Issuer's non-interest revenues. In addition, because the fees that the Issuer charges for managing its clients' portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of the Issuer clients' portfolios or increases the amount of withdrawals would reduce the revenues the Issuer receives from its asset management and private banking and custody businesses and have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

Risks associated with the implementation by the Issuer of its risk management policies

The Issuer is exposed to a number of risks, including, among others, market risk, credit risk, liquidity risk and operational risk. Although the Issuer has implemented risk management policies for each of the risks that it is exposed to, taking into account worst case scenarios, the policies and procedures it employs to identify, monitor and manage these risks may not be fully effective. The occurrence of any of the above risks may have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to credit risk

The Issuer is exposed to the risk that its customers and counterparties are not able to meet their commitments as and when the same fall due. If the value of the collateral securing the Issuer's loan portfolio declines, the Issuer will be exposed to a higher credit risk and increased risk of non-recovery in the event that any loans fail to perform. The Issuer cannot guarantee that it would be able to realise adequate proceeds from collateral disposals to cover loan losses.

Despite the adverse economic environment, in recent years there has not been a deterioration of the creditworthiness of the Issuer's customers. However, if the economic growth prospects continue to be poor, if unemployment increases or if interest rates increase sharply, this may result in a deterioration of the customers' ability to meet their obligations as and when the same fall due.

In 2015, overdue loans (defined as those in default for more than 90 days) represented 4.1 per cent. of the total credit portfolio and the overdue loans coverage ratio stood at 168.9 per cent.. The Issuer cannot assure potential investors that its level of provisions and other reserves will be adequate or that the Issuer will not have to take additional provisions for possible impairment losses in future periods. Amongst other aspects, failure by the Issuer to have an adequate level of provisions and other reserves or the Issuer's need to take additional provisions for possible impairment losses in future periods may have a material adverse effect on the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to market risk

The most significant market risks the Issuer faces include 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 which is the difference between lending and borrowing costs. The current structural market conditions, with low/negative interest rates and increased medium term funding costs may negatively impact the operating income of the Issuer.

Changes in exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's business activity, financial condition and on the results of its operations.

The Issuer currently engages in various treasury activities for its own account, including placing euro and foreign currency-denominated deposits in the inter-bank market and trading in the primary and secondary markets for government securities. Proprietary trading includes taking positions in the fixed income and equity markets using cash, derivative products and financial instruments. Although the Issuer's level of engagement in such activities is limited, proprietary trading involves a degree of risk. Future proprietary trading results will in part depend on market conditions and any losses experienced by the Issuer could adversely affect its business activities, financial condition and results of operations.

The Issuer's operations and results are dependent on the soundness of other financial institutions

The Issuer is exposed to many different counterparties in the normal course of its business; hence its exposure to counterparties in the financial services industry is significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and numerous other activities and relationships. These counterparties include institutional clients, brokers and dealers, commercial banks, investment banks and mutuals. Many of these relationships expose the Issuer to credit risk in the event of default of a counterparty or client. In addition, the Issuer's credit risk may be exacerbated when the collateral it holds cannot be realised at, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is due to cover, which could in turn affect the Issuer's ability to meet its payments under the Covered Bonds. Many of the hedging and other risk management strategies utilised by the Issuer also involve transactions with financial services counterparties. It is difficult to predict to which extent a downgrade in such counterparties' financial condition may affect the Issuer's hedging and other risk management strategies. The occurrence of any of the above events could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to counterparty risk

The Issuer's business operations involve the entering into contractual arrangements with customers, suppliers, financing partners, and trading counterparts which expose the Issuer to counterparty risks. These risks are notably present in contracts carried out in financial markets either organised or over the counter ("OTC") and derive from the possibility of non-performance by the counterparties under the contracted terms and subsequent occurrence of financial losses for the institution.

The control of such risks by the Issuer is carried out through an integrated system that allows for the recording of the approved limits and provides information on their availability for different products and maturities. The same system also allows the control of risk concentration for certain groups of customers or counterparties. Any failure by the Issuer to control such risk or mitigate the impact thereof could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to operational risk

In the ordinary course of the Issuer's business and as a result of the Issuer's organisational structure, the Issuer is subject to certain operational risks, including interruption of service, errors, fraud, omissions, delays in providing services and risk management requirements. The Issuer continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks. Any failure to execute the Issuer's risk management and control policies successfully could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to technological risk

The Issuer's consolidated operations are highly dependent on computerised record-keeping, financial reporting and other systems, including point of sale monitoring and internal accounting systems, particularly following the centralisation of the Issuer's information technology systems.

Although the Issuer's computer systems have been evaluated and the Issuer believes its back-up facilities to be adequate, the Issuer cannot assure potential investors that it will be able to identify and correct problems related to its information technology systems, or that it will be able to implement technological improvements successfully. Amongst others, any failure by the Issuer to identify and correct problems related to its information technology systems could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The Issuer's activity is subject to reputational risk

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

The Issuer continually monitors this risk by means of, among other things, policies that govern the devices and procedures that allow the Issuer: (i) to minimise the probability that reputational risk to occur; (ii) to identify, report to the Board of Directors of the Issuer and overcome situations that may involve this risk; (iii) to ensure follow up and control of any impacts of this risk; and (iv) to provide evidence, if necessary, that BST has reputation risk amongst its main concerns and has available the organisation and means required to foresee acts and facts that may lead to this risk and, should it be the case, the ability to overcome it. In any event, the Issuer cannot assure potential investors that it will be able to foresee and mitigate the impacts of this risk if the same occurs and should that be the case any failure to execute the Issuer's reputational risk policies successfully could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The auditors' reports scheduled to the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015 contain emphases

The auditors' reports scheduled to the audited consolidated financial statements of BST in respect of the financial years ended 31 December 2014 and 31 December 2015 contain the following emphases:

Financial year ended 31 December 2014

“As explained in detail in Note 50 of the Notes to the consolidated financial statements, there are a set of legal actions placed in 2013 by BST in English courts pending decision, involving some Portuguese state owned enterprises of the transportation sector, regarding the validity and binding

force of some interest rate swap agreements established between those parties in previous years. Additionally, during 2014, a new set of legal actions regarding the validity and binding force of certain interest rate swap agreements signed in previous years were brought in the Portuguese Courts against BST by entities comprised in the Regional Government of Madeira Island. At December 31, 2014, the positive fair value of those swaps and the interest which payment is suspended, as well as the net interest paid in the past by those enterprises that now are being subject to a refund request are presented in the above referred Note. As mentioned in Note 50, it is the Board of Directors of the Bank belief, supported by the opinion of its English and Portuguese legal attorneys, that the outcome of those legal actions will be favourable to it. Consequently, no provisions were recorded in the accompanying consolidated financial statements for these situations.”

Financial year ended 31 December 2015

“As explained in more detail in Note 50 of the Notes to the consolidated financial statements, in 2013 the Bank requested in the competent court, the High Court of Justice - Commercial Court of London, the statement of validity and binding force of some interest rate swap agreements established in previous years with Portuguese State-owned enterprises of the transportation sector. In March 2016, the approved judgement of this court was known and the decision was in favour of the Bank’s claims, declaring the validity and binding force of the interest rate swap agreements and sentencing the referred companies to pay the sums overdue. This process is currently in the appeal phase, upon request of the Portuguese State-owned enterprises. Additionally, during 2014, some entities comprised in the Regional Government of Madeira Island brought into the Portuguese Courts five legal actions against the Bank, regarding the validity and binding force of certain interest rate swap agreements signed in previous years with the Bank. Up to this date, all court decisions in these legal actions have been in favour of the Bank, including second and third decisions, and one of these legal actions is already concluded in favour of the Bank. At December 31, 2015, the positive fair value of those swaps and the sums which payment is suspended, as well as the net amounts paid in the past by those enterprises that were being subject to a refund request which was denied in the approved judgement of the Commercial Court of London, are presented in the above referred Note. It is the Bank’s Board of Directors belief, supported by the opinion of its English and Portuguese legal attorneys, by the approved judgement of the Commercial Court of London and the decisions to date of the Portuguese Courts, that the outcome of those legal actions will be favorable to it and consequently no provisions were recorded in the accompanying consolidated financial statements.”

As referred above, from the end of the first quarter of 2013, a movement with public projection arose in Portugal following which the validity of some interest rate swap agreements established between some financial institutions, including BST and several Portuguese state owned enterprises, namely in the railway and road transportation sectors, has been challenged. These agreements were signed before the beginning of the recent financial crisis in 2008 and represent high charges to those enterprises. Among those agreements, some established with BST were challenged, whose positive fair value at 31 December 2015 and 2014 amounted to approximately EUR 1.23 billion and EUR

1.32 billion respectively, which is reflected in the balance sheet under the caption “Financial assets held for trading” (Note 7) included in the audited consolidated financial statements of the BST in respect of the financial years ended 31 December 2015 and 2014 and which is incorporated in and forms part of this Base Prospectus. These agreements were carried out without incidents until September 2013.

In response to the movement referred to above, in its conviction of the regularity and binding force of the agreements with the Portuguese state owned enterprises, BST requested a legal statement regarding their validity, in order to eliminate any doubts about their validity and binding force. This initiative took place during the second quarter of 2013 in the English courts, in accordance with the terms of the respective agreements.

In September 2013, after the submission of the legal actions referred to above, the Portuguese State owned enterprises informed BST that they would suspend, from that date, the payment of the net sums associated with those swap agreements until the on-going actions were decided.

As at 31 December 2015 and 2014, the balance sheet caption “Other assets - Other” included approximately EUR 311 million and EUR 163 million, respectively, relating to sums not paid (Note 17).

In November 2013, the Portuguese State owned enterprises presented to the English courts their response to the legal actions and requested the nullity of the agreements and the refund of the net flows of interest paid in the past, which amounted to approximately EUR 134 million.

On 14 February 2014, BST presented to the English courts its reply and on 4 April 2014 the defence presented its counter arguments. On 16 May 2014, the preliminary hearing was held, and the hearings took place between October and November 2015, with final arguments in December 2015.

During 2014, two new legal actions were raised against BST by two Portuguese State owned enterprises, Metropolitano de Lisboa, E.P.E. and Metro do Porto, S.A., involving a total amount of approximately EUR 350 million. These legal actions are focused in the cancellation of some swap agreements established between BST and those two state owned enterprises, which are already being judged by the English courts since the second quarter of 2013, as described herein.

BST was notified on 4 March of 2016 of the ruling of the High Court of Justice of London on the legal actions submitted by the Issuer against the following Portuguese state owned enterprises - Metropolitano de Lisboa, E.P.E., Companhia de Carris de Ferro de Lisboa, S.A., Metro do Porto, S.A., and Sociedade de Transportes Colectivos do Porto, S.A.

These legal actions were initially submitted by BST in order to confirm the validity of nine swap agreements entered into between 2005 and 2007 by BST and such Portuguese state owned enterprises that, from September 2013 onwards suspended the payment of the sums due on such swap agreements. In particular, BST requested to the English court a legal statement regarding i) the validity and binding force of such agreements and ii) given the suspension of payments

mentioned above, the conviction of such Portuguese state owned enterprises to pay the sums overdue associated to such agreements, which on 1 October 2015 amounted to EUR 272.561.157.

The High Court of Justice of London declared all nine agreements valid and binding and thus, confirming the Issuer's understanding in respect of such agreements. Currently, these legal actions are in the appeal phase, upon request of the Portuguese state owned enterprises.

Additionally, during the first half of 2014, five legal actions regarding the validity and binding force of certain interest rate swap agreements were raised against BST in the Portuguese Courts by some public sector entities of the Regional Government of Madeira Island, which have also suspended the payment of the net sums associated with those swap contracts. On 31 December 2015 and 2014, the positive fair value of those swaps amounted to EUR 87 million and 100 million respectively, and was recorded under the caption "Financial assets held for trading" (Note 7). On 31 December 2015 and 2014, the balance sheet caption "Other assets - Other" included approximately EUR 31 million and 15 million respectively, related to the sums which payment is suspended (Note 17). In addition, the above referred entities are also asking for the refund of the net sums paid by them in the past, which, as of 31 December 2015 and 2014, amounted to EUR 20 million. As of the date of this Base Prospectus, BST presented its response to those legal actions and, up to this date, all court decisions in those legal actions have been in favour of BST and one of these legal actions is already concluded in favour of BST. In some of these legal actions, the Supreme Court confirmed the decisions of lower courts that declared themselves incompetent to adjudicate the actions, accepting the arguments of BST and considering that the matters raised in those actions are under the jurisdiction of the English courts. In another legal action, the Supreme Court raised a question to the Court of Justice of the European Union on the applicability of Regulation no. 44/2001 in relation to the jurisdiction pact to be sufficient. This question suspended the appeal of the Supreme Court on 4 February 2016.

Furthermore, at 31 December 2015 and 2014, another set of legal actions were raised against BST by its customers relating to swap agreements. In the majority of these legal actions the customers have requested the cancelation of the swap agreements established with BST, as well as the reimbursement of the net amount of interest paid by them in the past. The amounts involved in these legal actions at 31 December 2015 and 2014 correspond to a total amount of EUR 23,407 and 32,395 million, respectively.

Despite BST's understanding described above, an adverse outcome in the outstanding legal actions could affect BST's financial condition and results of operations, considering the amounts referred to above.

The auditors' reports scheduled to the audited consolidated financial statements of BST in respect of the financial year ended 31 December 2015 contain an additional emphasis:

"The result in the acquisition of a significant part of the business of Banif – Banco Internacional do Funchal, S.A. (Banif) as of December 20, 2015 was determined based on the fair value estimate of the assets acquired and liabilities assumed or in accordance with the International Financial

Reporting Standards applicable to some assets and liabilities for which fair value is not the measurement principle according to IFRS 3 – Business Combinations (Note 1.4). Its determination considered the information available up to the approval date of the financial statements of December 31, 2015 by the Bank's Board of Directors, and is provisional for some assets and liabilities. To this respect, the following aspects should be referred: (i) the perimeter of the transaction, namely the rights and obligations that comprise the assets, liabilities, off balance sheet items and assets under management sold to the Bank is not fully confirmed yet by the Bank of Portugal; (ii) the Bank did not recognise deferred tax assets, in the amount of 273 million Euros, that are part of the perimeter included in the last draft balance sheet presented by the Bank of Portugal at March 18, 2016 and which deduction to future profits of the Bank is included in the definitive offer of the Bank accepted in connection with the resolution measure of Banif, namely, for not having the approval of the Minister of Finance as required by article 145º AU of the Legal Framework of Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras”); (iii) for some financial assets and liabilities there is still more information needed related to their estimated future cash flows to determine their fair value as of the acquisition date; and (iv) there are contingencies for which final quantification requires obtaining additional information over past events. According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and consequently, the result determined in the acquisition.”

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

The Bank of Portugal has established minimum provisioning requirements that applies to the individual accounts regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Any change in the applicable requirements could have a material adverse effect on the results of operations of the Issuer. Nevertheless, the Issuer has already in place an Impairment Model with similarities to IFRS 9 namely the three stages approach and the lifetime measurement for stage II. The IFRS 9 regulation was published on June 2014 and will be implemented on January 2018, at which point the Issuer shall have a compliant IFRS 9 model. The inclusion of the forward looking approach and changes to the assessment of significant credit risk deterioration, as per the regulation, could lead to an impact on the Issuer's business activities, financial condition or results of operations. The impact is related to the potential increase in the value of provisions, and the higher sensitivity of the value of provisions based on the Issuer's assumptions on the future economical outcome.

Other factors that may affect an Issuer's ability to fulfil its obligations under the Covered Bonds

Volatility in interest rates may negatively affect the Issuer's net interest income, increase its non-performing loans and affect its ability to fulfil its obligations under the Covered Bonds

The Issuer's results of operations are dependent upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond the Issuer's control, including deregulation of the financial sector, monetary policies, domestic and international economic and political conditions among other factors.

Changes in market interest rates may affect the interest rates charged on the interest-earning assets differently from the interest rates paid on interest-bearing liabilities

Increases in market interest rates could result in an increase in interest costs relative to interest income and a reduction in the Issuer's net interest income which may affect the Issuer's ability to fulfil its obligations under the Covered Bonds. Also, a significant level of volatility in interest rates could lead to an increase in non-performing loans. Interest rates are highly sensitive to many factors beyond the Issuer's control, including deregulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

Foreign exchange rate fluctuations may negatively affect the Issuer's earnings and the value of its assets

In the ordinary course of its business, the Issuer has a small percentage of its assets and liabilities denominated in currencies other than the euro. Fluctuations in the value of the euro against other currencies may positively or adversely affect the Issuer's profitability. The value of the euro against the U.S. dollar may affect earnings from the Issuer's international operations. These foreign exchange fluctuations may affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

RISKS SPECIFIC TO THE COVERED BONDS

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or

more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indexes and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Covered Bonds are obligations of the Issuer only

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

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

Extended Maturity of the Covered Bonds

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

holders of Covered Bonds in that event other than as set out in the Terms and Conditions (see *Terms and Conditions of the Covered Bonds*) as amended by the applicable Final Terms.

Benefit of special creditor privilege (*privilégio creditório*)

The holders of Covered Bonds issued by the Issuer under the Programme, whether outstanding at the date hereof or in the future, benefit from a special creditor privilege (*privilégio creditório*) over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also preferred creditors of the Issuer which benefit from the above mentioned special creditor privilege (*privilégio creditório*). None of the assets comprised in the Cover Pool are or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

The Covered Bonds are subject to liquidity risk

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

RISKS SPECIFIC TO THE COVER POOL

Dynamic Nature of the Cover Pool

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

Other Assets/Hedging Contracts

The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Covered Bonds Law. The aggregate

amount of other eligible assets cannot exceed 20 per cent. of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

Hedging Contracts

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

Risks relating to the Cover Pool

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

Amortisation of Mortgage Credits

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

No Due Diligence

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

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

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

Administrative cooperation in the field of taxation

The EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “**Savings Directive**”), as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

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 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 Directive. The information refers to the account balance at the end of the calendar year, income paid or credited in the account and 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.

It is currently uncertain how such reporting obligations will be complied with and investors should consult their own tax advisers to obtain a more detailed explanation of this regime and how it may individually affect them.

Legal risk

The Covered Bonds Law was passed in 2006 and came into force on 20 March 2006. The Issuer was one of the first Portuguese credit institutions to set up a covered bond programme under the Covered Bonds Law. The protection afforded to the holders of Covered Bonds by means of the special creditor privilege on the Cover Pool is based exclusively on the Covered Bonds Law and it has not yet been judicially challenged.

Additionally, the Covered Bonds Law was not subject to any amendment following entry into force of the resolution legal framework currently applicable and provided for in the Credit Institutions General Regime, thus creating uncertainty as to the impact on the Cover Pool in case there is a resolution of the Issuer, notably in case the applicable resolution measure leads to the Cover Pool being transferred to an entity which does not have the capacity to replace assets forming part of the Cover Pool that may be required to be replaced for any legal or regulatory reason.

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

Interest rate risks

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

Credit ratings assigned to the Issuer or any Covered Bonds may not reflect all the risks associated with an investment in those Covered Bonds

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

European regulated institutions are in general restricted from using credit ratings for regulatory purposes under the CRA Regulation, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus and/or the Final Terms will be disclosed in the Final Terms.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their

legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Reliance upon Interbolsa procedures and Portuguese law

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

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

Covered Bonds will be represented in dematerialised book-entry form (*forma escritural*) and may be registered Covered Bonds (*nominativas*) or bearer Covered Bonds (*ao portador*).

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

(b) *Payments on Covered Bonds*

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

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

(c) *Portuguese Tax Rules*

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

If the Covered Bonds are integrated in a centralised system for securities managed, either (i) by a resident entity or by an international clearing system managing entity established in another EU Member State (e.g. Euroclear and Clearstream, Luxembourg) or (ii) in an European Economic Area

Member State (provided it is bound by an administrative cooperation in tax matters similar to the one established within the EU) the management entity of such clearing system shall transmit to the direct register entity or to its representative regarding all accounts under its management, the name and address and tax identification number (as long as they possess one), the identification and quantity of the securities held and the amount of income of each beneficiary.

It should also be noted that, if interest and other types of investment income derived from the Covered Bonds are paid or made available (*colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (e.g., typically “jumbo” accounts) such income will be subject to withholding tax in Portugal at a rate of 35 per cent. unless the beneficial owner of the income is disclosed. Failure to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35 per cent.

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable to that are domiciled in a country included in the “tax havens” list approved by Ministerial Order no. 150/2004, of 13 February 2004 (as amended by Ministerial Order no. 292/2011, of 8 November 2011) is subject to withholding tax at a rate of 35 per cent., which is the final tax on that income.

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

Other Risks

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

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

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

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

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

RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive, Article 26 of the Prospectus Regulation and Article 135-C of the Portuguese Securities Code, for the purpose of giving information with regard to the Issuer and the Covered Bonds which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds. This Base Prospectus is not a prospectus for the purposes of section 12(a)(2) or any other provision of the US Securities Act.

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

In accordance with, and for the purposes of, Articles 149, 150 and 243 of the Portuguese Securities Code, the Issuer, the members of its Board of Directors, the members of its Supervisory Board, Deloitte & Associados – SROC, S.A., registered with the CMVM with number 231, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon, Portugal, as statutory auditor and auditor of the Issuer for the years ended 31 December 2014 and 2015 which has audited the consolidated financial statements of the Issuer as of and for the years ended 31 December 2014 and 2015 (see *Management and Statutory Bodies*) are responsible for the information contained in this Base Prospectus and each of them declares that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus for which it is responsible according to the aforementioned Articles is in accordance with the facts and contains no omissions likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see *Documents Incorporated by Reference*). This Base Prospectus shall be read and construed, and any decision to invest in the Covered Bonds should be made, on the basis that such documents are so incorporated and form part of this Base Prospectus as a whole.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger (as defined in *Definitions*), the Common Representative (as defined under *Overview of the Covered Bonds Programme*) or any of the Dealers.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the

Programme is correct as of any time subsequent to the date indicated in the document containing such information.

If, between the date of this Base Prospectus and the closing date of any offer, or the date of any admission to trading, made thereunder, any new factor, material mistake or inaccuracy relating to information included in this Base Prospectus occurs or if the Issuer becomes aware of a previously existing fact not disclosed in this Base Prospectus, in all cases which are capable of affecting the assessment of any Covered Bonds, the Issuer will prepare a supplement to this Base Prospectus.

The Arranger, the Common Representative and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, amongst other things, the most recent financial statements, if any, of the Issuer when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus or any Final Terms (as defined below) do not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the Dealers (save for application for the approval by the CMVM of this Base Prospectus as a base prospectus for the purposes of the Prospectus Directive) which would permit a public offering of any Covered Bonds or the distribution of this Base Prospectus or any other offering material relating to the Programme or the Covered Bonds issued thereunder in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material relating to the Programme or the Covered Bonds issued thereunder may be distributed or published in any jurisdiction, except under circumstances that would result in compliance with any applicable securities laws and regulations. Each Dealer has represented or, as the case may be, will be required to represent that to the best of its knowledge all offers and sale by it will be made on the terms indicated above. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of the Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the EEA (including, among other countries, Italy, Portugal and the United Kingdom) and Japan. See *Subscription and Sale and Secondary Market Arrangements*.

None of the Arranger, the Common Representative and the Dealers or any of their affiliates has separately verified the information contained or incorporated in this Base Prospectus. Accordingly,

none of the Arranger, the Common Representative or the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Base Prospectus. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the Covered Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger, the Common Representative or the Dealers that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, the Common Representative or any of the Dealers to subscribe for or to purchase any Covered Bonds.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Covered Bonds in any Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of a placement contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered Bonds may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to the provisions of the Portuguese Securities Code which implemented Article 3 of the Prospectus Directive or supplement a prospectus pursuant to the provisions of the Portuguese Securities Code which implemented Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to the provisions of the Portuguese Securities Code which implemented Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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

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

OVERVIEW OF THE COVERED BONDS PROGRAMME

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

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Covered Bonds, a new Base Prospectus will be published.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended.

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

Description: Covered Bonds Programme.

Programme Size: Up to €12,500,000,000 (or its equivalent in other currencies) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time.

The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.

Issuer: Banco Santander Totta, S.A. (see *Description of the Issuer*).

Arranger: Morgan Stanley & Co. International plc.

Dealers: Banco Santander, S.A., Banco Santander Totta, S.A., Barclays Bank PLC, BNP Paribas, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, Goldman Sachs International, HSBC Bank plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, Société Générale, UBS Limited, UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement.

Common

Representative: BNP Paribas Trust Corporation UK Limited in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of

the Common Representative Appointment Agreement, having its registered office at 55 Moorgate, London EC2R 6PA, United Kingdom, or any successor common representative appointed by a meeting of the holders of Covered Bonds.

Agent: Banco Santander Totta, S.A., in its capacity as Agent, with its head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, or any successor Agent(s), in each case together with any additional Agent(s), appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

Paying Agent: Banco Santander Totta, S.A., in its capacity as Paying Agent, with its head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, or any successor Paying Agent(s), in each case together with any additional Paying Agent(s), appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

Cover Pool

Monitor: PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, 1, 3º, 1069-316 Lisbon, Portugal. See *Cover Pool Monitor*.

Hedge

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

Risk Factors: There are certain factors that may affect the Issuer’s business activities, financial condition or results of operations and, consequently, the Issuer’s ability to fulfil its obligations under the Covered Bonds issued under the Programme. These are set out under *Risk Factors* above and include, *inter alia*, exposure to adverse changes in the Portuguese economy, the credit risk of borrowers and clients of the Issuer, the risk of increased competition in the Portuguese market, the Eurozone sovereign debt crisis, possible rating downgrades of Portugal and its impact on funding of the economy and on the Issuer’s activity and other market risks to which the Issuer is or may become exposed. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under *Risk Factors* above and include, *inter alia*, the fact that no judicial decision exists with respect to the Covered Bonds Law, the dynamics of the legal and regulatory requirements, the fact that the Covered Bonds may not be

suitable investments for all investors, the risks related to the structure of a particular issue of Covered Bonds and the risks related to applicable tax certification requirements.

Distribution: Covered Bonds may be distributed by way of private placement and on a non-syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. See *Subscription and Sale and Secondary Market Arrangements*.

Certain

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

Currencies: Subject to compliance with relevant laws, Covered Bonds may only be issued in euro or in such other currency accepted by Interbolsa for registration and clearing.

Ratings: Covered Bonds issued under the Programme are expected on issue to be rated at least by one rating agency which is established in the EU and registered with the European Securities and Markets Authority under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended.

The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A rating addresses the likelihood that the holders of Covered Bonds will receive timely payments of interest and ultimate repayment of principal at the Maturity Date or the Extended Maturity Date, as applicable.

Listing and Admission

to Trading: This document dated 14 July 2016 has been approved by the CMVM as a base prospectus and application will be made to Euronext for the admission of Covered Bonds issued under the Programme to trading on the regulated market Euronext Lisbon (“**Euronext Lisbon**”). Covered Bonds may, after notification by the CMVM to the supervision authority of the relevant Member State(s) of the EU in accordance with the provisions of the Portuguese Securities Code which implemented Article 18 of the Prospectus Directive, be admitted to trading on the regulated market(s) of

and/or be admitted to listing on stock exchange(s) of any other Member States of the EEA. Covered Bonds which are neither listed nor admitted to trading on any market may also be issued under the Programme. The relevant Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or regulated market(s).

Selling

Restrictions:

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

United States Selling

Restriction:

The Covered Bonds have not been and will not be registered under the US Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons unless an exemption from the registration requirements of the US Securities Act is available or in a transaction not subject to the registration requirements of the US Securities Act. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the US Securities Act.

Use of Proceeds:

Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.

Status of the

Covered Bonds:

The Covered Bonds will constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank *pari passu* with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See *Characteristics of the Cover Pool*.

Terms and Conditions:	Final Terms will be prepared in respect of each Tranche of Covered Bonds, supplementing the Terms and Conditions set out in <i>Terms and Conditions of the Covered Bonds</i> .
Clearing Systems:	Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg (together the “ Clearing Systems ” and, each, a “ Clearing System ”). See <i>Form of the Covered Bonds and Clearing System</i> .
Form of the Covered Bonds:	The Covered Bonds will be in book-entry form, either in bearer (ao <i>portador</i>) or in registered form (<i>nominativas</i>), and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds. See <i>Form of the Covered Bonds and Clearing System</i> .
Transfer of Covered Bonds:	The Covered Bonds may be transferred in accordance with the provisions of the Clearing System or other central securities depositary with which the relevant Covered Bond has been deposited. The transferability of the Covered Bonds is not restricted.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than 2 years or in excess of 50 years. See also <i>Extended Maturity Date</i> .
Issue Price:	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
Events of Default:	Issuer Insolvency. See Condition 9 (<i>Insolvency Event and Enforcement</i>) of the Terms and Conditions.
Negative Pledge:	None.
Cross Default:	None.
Guarantor:	None.

Fixed Rate

Covered Bonds: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate

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

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. (“**ISDA**”) and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.

Zero Coupon

Covered Bonds: Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.

Redemption:

The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (i) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (other than in specified instalments, if applicable – see *The Covered Bonds Law*), or (ii) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (as applicable), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms. See also *Extended Maturity Date*.

Extended

Maturity Date:

Unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such provisions, the applicable Final Terms will also provide that an Extended Maturity Date applies to each Series of the Covered Bonds.

As regards redemption of Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the maturity of the principal amount outstanding of the Covered Bonds not redeemed will automatically extend on a monthly basis up to one year but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

As regards interest on Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Maturity Date to (but excluding) the earlier of the Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date and will be payable in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

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

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

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the relevant Covered Bonds on the Maturity Date.

**Denomination
of the Covered
Bonds:**

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

**Minimum
Denomination:**

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

**Taxation of the
Covered Bonds:**

All payments of principal and interest in respect of the Covered Bonds will be made subject to any legally applicable Tax withholding or deductions (notably in relation to residents for tax purposes in Portugal), except if any Tax withholding exemption or waiver applies, in which case such payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, Taxes (investors being in any case required to comply with the applicable obligations). The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. In order for withholding tax not to apply the holders of the Covered Bonds must, *inter alia*, deliver certain tax certifications. See *Taxation* section.

**The Covered Bonds
Law:**

The Covered Bonds Law introduced into Portuguese Law a framework for the issuance of certain types of asset covered bonds. Asset covered bonds can only be issued by (i) credit institutions licensed under the Credit Institutions General Regime or (ii) by special credit institutions created pursuant to the Covered Bonds Law, whose special purpose is the issue of covered bonds. The Covered Bonds Law establishes that issuers of mortgage covered bonds shall maintain an asset cover pool, comprised of

mortgage credit assets and limited classes of other assets, over which the holders of the relevant covered bonds have a statutory special creditor privilege.

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

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

Governing Law:

Unless otherwise specifically provided, the Covered Bonds and all other documentation and matters relating to the Programme, including any non-contractual obligations arising out of, or in connection with, the Covered Bonds or the Programme, are governed by, and will be construed in accordance with, Portuguese Law.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- (a) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2014, together with the auditors' reports prepared in connection therewith (available at www.santandertotta.com and at www.cmvm.pt), including the information set out at the following pages in particular:

Consolidated financial statements	Pages 82 to 230 (out of 234)
Consolidated balance sheets as of 31 December 2014 and 2013 (2013 accounts are pro forma) ²	Page 83 (out of 234)
Consolidated statements of income for the years ended 31 December 2014 and 2013 (2013 accounts are pro forma) ²	Page 84 (out of 234)
Consolidated statements of income and other comprehensive income for the years ended December 31 2014 and 2013 (2013 accounts are pro forma) ²	Page 85 (out of 234)
Consolidated statement of changes in shareholder's equity for the years ended 31 December 2014 and 2013 (2013 accounts are pro forma) ²	Page 86 (out of 234)
Consolidated statements of cash flows for the years ended 31 December 2014 and 2013 (2013 accounts are pro forma) ²	Page 87 (out of 234)
Notes to the consolidated financial statements	Pages 88 to 230 (out of 234)
Legal certification of accounts and audit report	Pages 231 to 234 (out of 234)

- (b) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2015, together with the auditors' reports prepared in connection therewith (available at www.santandertotta.com and at www.cmvm.pt), including the information set out at the following pages in particular:

Consolidated financial statements	Pages 78 to 253 (out of 257)
Consolidated balance sheets as of 31 December 2015 and 2014	Page 79 (out of 257)
Consolidated statements of income for the years ended 31	Page 80 (out of 257)

² The denomination "*pro forma*" does not determine the presentation of proforma financial information in accordance to Schedule II to the Prospectus Regulation.

December 2015 and 2014

Consolidated statements of other comprehensive income for the years ended December 31 2014 and 2015 Page 81 (out of 257)

Consolidated statement of changes in shareholder's equity for the years ended 31 December 2015 and 2014 Page 82 (out of 257)

Consolidated statements of cash flows for the years ended 31 December 2015 and 2014 Page 83 (out of 257)

Notes to the consolidated financial statements Pages 84 to 253 (out of 257)

Legal certification of accounts and audit report Pages 255 to 257 (out of 257)

- (c) the bylaws (including an English language translation thereof) of the Issuer (available at https://www.santandertotta.pt/pt_PT/pdf/BST-Estatutos-em-vigor.pdf).
- (d) the Terms and Conditions of the Covered Bonds contained in the previous Prospectuses dated 26 September 2013, as supplemented, 14 August 2014, as supplemented, and 29 July 2015, as supplemented.

Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the CMVM in accordance with Article 142 of the Portuguese Securities Code which implemented Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of English language documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent.

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

FORM OF THE COVERED BONDS AND CLEARING SYSTEM

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

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

Interbolsa registers securities for its participants and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa provides various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing.

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

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

General

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

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

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

Covered Bonds will be attributed an International Securities Identification Number ("ISIN") code through the codification system of Interbolsa and will be accepted for clearing through LCH. Clearnet, S.A., the clearing system operated at Interbolsa as well as through the clearing systems operated by Euroclear and Clearstream, Luxembourg and settled by Interbolsa's settlement system. Under the procedures of Interbolsa's settlement system, settlement of stock exchange transactions takes place on the third Business Day after the trade date and is provisional until the financial settlement that takes place on the settlement date.

Form of the Covered Bonds

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

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with each of the Affiliate Members of Interbolsa. The expression "**Affiliate Member of Interbolsa**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the records of an Affiliate Member of Interbolsa as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

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

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

Payment in respect of the Covered Bonds of principal and interest (i) in Euros will be (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) from the payment current account which the Paying Agent has indicated to, and has been accepted by, Interbolsa to be used on the Paying Agent's behalf for payments in respect of securities held through Interbolsa to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) in currencies other than Euro 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 Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

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

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

Interbolsa shall notify the Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Affiliate Members of Interbolsa.

In the case of a partial payment, the amount held in the relevant current account of the Paying Agent must be apportioned pro-rata between the accounts of the Affiliate Members of Interbolsa. After a payment has been processed, such process shall be confirmed to Interbolsa.

Transfer of Covered Bonds

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

wishes to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.

FINAL TERMS FOR COVERED BONDS

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

Final Terms dated [●].

Banco Santander Totta, S.A.

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

under the €12,500,000,000 Covered Bonds Programme

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

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

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the “**Terms and Conditions**”) set forth in this Base Prospectus dated 14 July 2016 [and the supplement dated [●]], which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the “**Prospectus Directive**”), as amended (which includes the amendments made by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010, to the extent that such amendments have been implemented in a relevant Member State), the Commission Regulation (EC) No. 809/2004, as amended (the “**Prospectus Regulation**”) and the Portuguese Securities Code (approved by Decree-law 486/99, of 13 November 1999, as amended, the “**Portuguese Securities Code**”). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 135-C.4 of the Portuguese Securities Code, which implemented Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base

Prospectus. The Base Prospectus [as supplemented] is available for viewing at Banco Santander Totta, S.A., Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, and copies may be obtained from the same address. A copy of the Base Prospectus [and any supplements thereto] [is] [are] available for viewing at www.cmvm.pt and www.santandertotta.com].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under any previous base prospectus whose terms and conditions are incorporated by reference herein as so supplemented or any other subsequent base prospectus.]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the “**Terms and Conditions**”) set forth in the base prospectus dated [original date] as supplemented which is incorporated by reference in the Base Prospectus dated 14 July 2016 [and the supplement dated [●]] (the “**Base Prospectus**”), which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the “**Prospectus Directive**”), as amended (which includes the amendments made by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010, to the extent that such amendments have been implemented in a relevant Member State), the Commission Regulation (EC) No. 809/2004, as amended (the “**Prospectus Regulation**”) and the Portuguese Securities Code (approved by Decree-law 486/99, of 13 November 1999, as amended, the “**Portuguese Securities Code**”). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 135-C.4 of the Portuguese Securities Code, which implemented Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus, which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Base Prospectus dated [●] and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at Banco Santander Totta, S.A., Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, and copies may be obtained from the same address. A copy of the Base Prospectus [and any supplements thereto] [is] [are] available for viewing at www.cmvm.pt and www.santandertotta.com.

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

[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 142 of the Portuguese Securities Code which implemented Article 16 of the Prospectus Directive.]

- | | | |
|----|-----------------------|--|
| 1. | Issuer: | Banco Santander Totta, S.A. |
| | (i) Series Number: | [●] |
| | (ii) [Tranche Number: | [●] |
| | | <i>(If fungible with an existing Series, details of that</i> |

- Series, including the date on which the Covered Bonds become fungible.)]*
2. Specified Currency or Currencies: [●]
 - (i) Aggregate Nominal Amount of Covered Bonds:
 - (a) Series: [●]
 - (b) Tranche: [●]
 - (ii) Specify whether Covered Bonds are to be admitted to trading: [Yes (if so, specify each Series/Tranche)/No]
 - (iii) Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
 - (iv) [Net Proceeds (Required only for listed issues)]: [●]
 3. Specified Denominations: [●]
 - (i) Issue Date: [●]
 - (ii) [Interest Commencement Date]:

[specify if different from the Issue Date/Issue Date/Not Applicable]
(NB: An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)
 4. Maturity Date: *[specify date (for Fixed Rate Covered Bonds) or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year]*
 5. Extended Maturity Date: [Applicable/Not Applicable]

[insert date] (If applicable, the date should be that falling one year after the Maturity Date. If not applicable, insert "Not Applicable").

(Extended Maturity Date must be Applicable to all issues of Covered Bonds, unless, the rating agencies which at the relevant time provide credit ratings for the Programme agree that Extended Maturity Date may be Not Applicable)
 6. Interest Basis:
 - (i) Period to (and including) Maturity Date: [[●] per cent. Fixed Rate]
 [EURIBOR / LIBOR] +/- Margin
 [Margin = [●] per cent.]
 [Zero Coupon]
 (further particulars specified below)
 - (ii) Period from (but excluding) Maturity Date up to (and including) Extended [Not Applicable] /
 [[●] per cent. Fixed Rate]

- Maturity Date: [EURIBOR / LIBOR] +/- Margin
[Margin = [●] per cent.]
[Zero Coupon]
(further particulars specified below)
- [Insert “Not Applicable” only if Extended Maturity Date does not apply]
7. Redemption/Payment Basis: [Redemption at par]
[Other (specify)]
8. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for change of Covered Bonds into another Interest or Redemption/ Payment Basis]
9. Put/Call Options: [Investor Put]
[Issuer Call]
[Not Applicable]
[(further particulars specified below)]
- (i) Status of the Covered Bonds:
- The Covered Bonds will be direct, unconditional and senior obligations of the Issuer and rank equally with all other mortgage covered bonds issued or to be issued by the Issuer. The Covered Bonds will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law.
- (ii) [Date [Board] approval for issuance of Covered Bonds obtained]: [●]
(NB: Only relevant where Board (or similar) authorisation is required for the particular tranche of Covered Bonds)
10. Method of distribution: [Syndicated/Non-syndicated]
11. Listing/Admission to Regulated Market: [Euronext Lisbon /Other (specify)/None]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12. Fixed Rate Covered Bonds Provisions
- To Maturity Date: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
 - From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable] (If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph)
(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.)
- (i) Rate(s) of Interest:
- To Maturity Date: [●] per cent. *per annum* [payable [annually/semi-

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

(iii) Additional Business Centre(s):

- To Maturity Date:
- From Maturity Date up to Extended Maturity Date:

[•]

[Not Applicable]/ [•]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

- To Maturity Date:
- From Maturity Date up to Extended Maturity Date:

[Screen Rate Determination/ISDA Determination]

[Not Applicable]/[Screen Rate Determination/ISDA Determination]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)

(v) Party responsible for calculating the Rate of Interest and Interest Amount:

- To Maturity Date:

[Banco Santander Totta, S.A./[•]]

[Elect and fill-in the second alternative only if a Calculation Agent has been appointed other than the Agent]

- From Maturity Date up to Extended Maturity Date:

[Not Applicable]/[Banco Santander Totta, S.A./[•]]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date, in which case the last alternative shall be elected and filled-in if a Calculation Agent has been appointed other than the Agent.)

(vi) Screen Rate Determination:

A. To Maturity Date:

- Reference Rate:
- Interest Determination Date:

[•]

[•] *(Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)*

- Relevant Screen Page:

[•] *(in the case of Euribor, if not Reuters EURIBOR01*

ensure it is a page which shows a composite rate or amend the fallback provisions accordingly)

B. From Maturity Date up to Extended Maturity Date:

[Not Applicable]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)

- Reference Rate:

[•]

- Interest Determination Date:

[•] *(Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)*

- Relevant Screen Page:

[•] *(in the case of Euribor, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions accordingly)*

(vii) ISDA Determination:

A. To Maturity Date:

[•]

- Floating Rate Option:

[•]

- Designated Maturity:

[•]

- Reset Date:

B. From Maturity Date up to Extended Maturity Date:

[Not Applicable]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)

- Floating Rate Option:

[•]

- Designated Maturity:

[•]

- Reset Date:

[•]

(viii) Margin(s):

- To Maturity Date:
- From Maturity Date up to Extended Maturity Date:

[+/-] [•] per cent. *per annum*

[Not Applicable]/ [+/-] [•] per cent. *per annum* *(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)*

(ix) Minimum Rate of Interest:

- To Maturity Date:

[•] per cent. *per annum*

- From Maturity Date up to Extended Maturity Date: [Not Applicable]/[●] per cent. *per annum* (State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)
- (x) Maximum Rate of Interest:
 - To Maturity Date: [●] per cent. *per annum*
 - From Maturity Date up to Extended Maturity Date: [Not Applicable]/[●] per cent. *per annum* (State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)
- (xi) Day Count Fraction:
 - To Maturity Date:
 - [Actual/Actual (ISDA)
 - Actual/365 (Fixed)
 - Actual/365 (Sterling)
 - Actual/360
 - 30/360
 - 30E/360
 - 30E/360 (ISDA)
 - Other]
 - (see Condition 4 (*Interest*) for alternatives)
 - From Maturity Date up to Extended Maturity Date:
 - [Not Applicable]/
 - [Actual/Actual (ISDA)
 - Actual/365 (Fixed)
 - Actual/365 (Sterling)
 - Actual/360
 - 30/360
 - 30E/360 (ISDA)
 - 30E/360
 - Other] (see Condition 4 (*Interest*) for alternatives)
 - (State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating

Rate Covered Bonds after the Maturity Date.)

- (xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:

- To Maturity Date: [●]

- From Maturity Date up to Extended Maturity Date:

[Not Applicable]/[●]

(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.)

14. Zero Coupon Covered Bonds Provisions:

[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(i) Accrual Yield:

[●] per cent. *per annum*

(ii) Reference Price:

[●]

(iii) Any other formula/basis of determining amount payable:

[●]

(iv) Day Count Fraction in relation to late payment:

[Condition 5.5 applies/Other (*specify*)]

(consider applicable day count fraction if not U.S. dollar denominated)

PROVISIONS RELATING TO REDEMPTION

15. Call Option:

[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(i) Optional Redemption Date(s):

[●]

(ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):

[●] per Covered Bond of [●] Specified Denomination

(iii) If redeemable in part:

(a) Minimum Redemption Amount:

[●]

(b) Maximum Redemption Amount:

[●]

(iv) Notice period (if other than as set out in the Terms and Conditions):

[●] *(NB: If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as*

any other notice requirements which may apply, for example, as between the Issuer and the Agent)

16. Put Option:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s):
- (ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):
- (iii) Notice period:

[•]

[•] per Covered Bond of [•] Specified Denomination
[•] *(NB: If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

17. Final Redemption Amount of each Covered Bond:

[•] per Covered Bond of [•] Specified Denomination
(NB: The Final Redemption Amount shall correspond at least to the nominal amount)

[Early Redemption Amount of each Covered Bond payable on an event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6 (*Redemption and Purchase*))]:

[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

18. Form of Covered Bonds:

Book-Entry form (*forma escritural*)
[Bearer (*ao portador*) Covered Bonds/Registered (*nominativas*) Covered Bonds]

19. Other final terms:

[Not Applicable/*give details*]

(When adding on any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 142 of the Portuguese Securities Code which implemented 16 of the Prospectus Directive.)

DISTRIBUTION

20. (i) If syndicated, names of Managers:

[Not Applicable/*give names*]

- (ii) Date of [Subscription] Agreement: [●]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
 If non-syndicated, name of relevant Dealer: [Not Applicable/*give name and date of relevant agreement*]
21. U.S. Selling Restrictions: [Not Applicable/*give details*]
22. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms for issue and admission to trading on the regulated market of Euronext Lisbon. The Base Prospectus and the form of Final Terms allows for admission to trading on other regulated markets of the Covered Bonds described herein pursuant to the €12,500,000,000 Covered Bonds Programme of Banco Santander Totta, S.A..

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. Listing

- (i) Listing *and* admission to trading: [Application [has been made/ is expected to be made] for the Covered Bonds to be admitted to trading on [Euronext Lisbon /Other (*specify*)/None] with effect from [●].] [Not Applicable.]
(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)
- (ii) Estimate of total expenses related to admission to trading: [●]

2. Ratings

Ratings: The Covered Bonds to be issued [have been]/[are expected to be] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]. Each of [defined terms] is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended (the “CRA Regulation”).]:

[Moody’s: [●]]

[Fitch: [●]]

[DBRS:[●]]

[Other: [●]]

(The above disclosure should reflect the rating allocated to the Covered Bonds being issued.)

[[Insert credit rating agency] is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[Insert credit rating agency] is established in the European Union and is registered under the CRA Regulation.]

[[Insert credit rating agency] is not established in the European Union and is not registered in accordance with the CRA Regulation.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration

under the CRA Regulation. However, the application for registration under the CRA Regulation of [insert the name of the relevant EU CRA affiliate that applied for registration], which is established in the European Union, disclosed the intention to endorse credit ratings of [insert credit rating agency].]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under the CRA Regulation. The ratings [[have been]/[are expected to be]] endorsed by [insert the name of the relevant EU-registered credit rating agency] in accordance with the CRA Regulation. [Insert the name of the relevant EU-registered credit rating agency] is established in the European Union and registered under the CRA Regulation.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under the CRA Regulation, but it is certified in accordance with such Regulation.]

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

“Save for fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and its affiliates in the ordinary course of business.” – *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 Base Prospectus under Article 142 of the Portuguese Securities Code which implemented Article 16 of the Prospectus Directive.)]

4. Reasons for the Offer, Estimated Net Proceeds (Issue Price minus the Estimated Total Expenses) and Estimated Total Expenses (the total expenses relating to admission to trading and the fees payable to the Managers/Dealers)

- | | |
|-----------------------------------|-----|
| [(i) Reasons for the offer: | [●] |
| [(ii)] Estimated net proceeds: | [●] |
| [(iii)] Estimated total expenses: | [●] |

5. Yield

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
[The yield for Floating Rate Covered Bonds is an

estimation only and calculated with reference to the Rate of Interest that would be payable if the Issue Date would be an Interest Payment Date and on the assumption that such Rate of Interest (comprising the relevant rate + margin) would not change in the future. Investors should be aware that the Rate of Interest payable on each Interest Payment Date will be subject to the variation of the relevant Reference Rate. The index used to calculate the yield was [●]

6. Operational Information

ISIN Code:

[●]

Common Code:

[●]

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any):

[●]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds. The applicable Final Terms in relation to any Tranche of Covered Bonds shall complete the following Terms and Conditions for the purpose of such Covered Bonds. Reference should be made to “Final Terms for Covered Bonds” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

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

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

References herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean the book-entries corresponding to the units of the lowest Specified Denomination in the Specified Currency (as specified in the applicable Final Terms).

The Covered Bonds have the benefit of a set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated, the “**Set of Agency Procedures**”) dated 4 April 2008 and made and agreed by Banco Santander Totta, S.A. (acting in its capacity as Agent and Paying Agent, which expressions shall include any successors, and as Issuer) and by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer.

Any reference to “**holders of Covered Bonds**” shall mean the persons in whose name the Covered Bonds are registered in the relevant securities account held with Interbolsa.

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

Copies of the Set of Agency Procedures are available for inspection during normal business hours at the specified office of each of the Paying Agents (such Paying Agents together referred to as the “**Agents**”). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents save that, if these Covered Bonds are unlisted, the applicable Final Terms will only be obtainable by a holder holding one or more unlisted Covered Bonds and

such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity and at the website of Comissão do Mercado de Valores Mobiliários (the “**CMVM**”) – www.cmvm.pt. The Covered Bonds holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Set of Agency Procedures and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Set of Agency Procedures.

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

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

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

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer (*ao portador*) or in registered (*nominativas*) form as specified in the applicable Final Terms and in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds will be held through Interbolsa and will be held in book-entry form (*forma escritural*) and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. Each person shown in the records of an Affiliate Member of Interbolsa as having an interest

in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond, depending upon the Interest Basis shown and as specified in the applicable Final Terms.

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

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

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

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

The holders of Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE COVERED BONDS

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

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

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

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

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

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

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1 (*Interest on Fixed Rate Covered Bonds*):

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

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

In these Terms and Conditions:

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

4.2 Interest on Floating Rate Covered Bonds

(A) *Interest Payment Dates*

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

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

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

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

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

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

- (iv) the Preceding Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

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

(B) *Rate of Interest*

Floating Rate Covered Bonds

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms, provided that (as set out below and detailed in the relevant Final Terms) the relevant rate of interest will be equal to the relevant reference rate plus or minus (as the case may be) the relevant Margin.

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

the Issue Date of the first Tranche of the Covered Bonds (the “**ISDA Definitions**”) and under which:

1. the Floating Rate Option is as specified in the applicable Final Terms;
2. the Designated Maturity is the period specified in the applicable Final Terms; and
3. if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the Eurozone inter-bank offered rate (EURIBOR) for a currency, the relevant Reset Date is the first day of that Interest Period.

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

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

1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

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

above) or, as applicable, the relevant Calculation Agent, of such offered quotations.

If, for the purposes of the calculations described above, the Relevant Screen Page is not available or if no offered quotations appear thereon, the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified shall request each of the Reference Banks to provide it with its offered quotation (expressed as a percentage rate *per annum*) for the Reference Rate at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date (as specified in the applicable Final Terms) in question. If two or more of the Reference Banks provide it with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent.

If on any Interest Determination Date, one only or none of the Reference Banks provides the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent, with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate *per annum* which the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent, determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent, by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the above specified 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 the London inter-bank market (if the Reference Rate is LIBOR) or the Eurozone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent or, where the applicable Final Terms specifies a Calculation Agent, 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 (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the above specified 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 Agent or, where the applicable Final Terms specifies a Calculation Agent, the

Calculation Agent, it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Eurozone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), 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 on the Interest Determination Date for the last preceding Interest Period (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

(F) *Certificates to be final*

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

4.3 Accrual of interest

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

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

- (A) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*), the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3 (*Accrual of interest*). In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.
- (B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*), the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.
- (C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified

under the applicable Final Terms, for the purposes of this Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*) the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

- (D) This Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*) shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Covered Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*).

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars shall be Sydney); and
- (ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) Interbolsa regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to Section 871(m) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

5.2 Payments in relation to Covered Bonds

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

Payment in respect of the Covered Bonds of principal and interest (i) in Euros will be (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) from the payment current account which the Paying Agent has indicated to, and has been accepted by, Interbolsa to be used on the Paying Agent's behalf for payments in respect of securities held through Interbolsa to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) in currencies other than Euros 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 Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

5.3 Payment Day

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

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

Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars shall be Sydney) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open,

provided that such a day is a business day for the purposes of the centralised system operated by Interbolsa (as defined by a notice of Interbolsa, according to which such a business day corresponds to a day on which the TARGET2 System is open).

5.4 Interpretation of principal

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

- (i) the Final Redemption Amount of the Covered Bonds;
- (ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds; and
- (iii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

Subject to Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*), unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date.

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

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

partial redemption of Covered Bonds, the nominal amount of all outstanding Covered Bonds will be redeemed proportionally.

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

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent, at any time during normal business hours of such Paying Agent, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

6.4 Purchases

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

6.5 Cancellation

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

6.6 Late payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*) does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6.1 (*Final redemption*), 6.2 (*Redemption at the option of the Issuer (Call Option)*) or 6.3 (*Redemption at the option of the holders of Covered Bonds (Put Option)*) or upon its becoming due and repayable as provided in Condition 9 (*Insolvency Event and Enforcement*) is improperly withheld or

refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

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

where:

RP means the Reference Price; and

AY means the Accrual Yield expressed as a decimal; and

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

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

6.7 Extension of Maturity up to Extended Maturity Date

- (A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such Extended Maturity provisions.
- (B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the holders of Covered Bonds (in accordance with Condition 11(*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest

Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

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

- (H) This Condition 6.7 (*Extension of Maturity up to Extended Maturity Date*) shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds in full on the Maturity Date (or within two Business Days thereafter).

7. TAXATION

7.1 Payments free of taxes

All payments of principal and interest in respect of the Covered Bonds will be made subject to any legally applicable Tax withholding or deductions (notably in relation to residents for tax purposes in Portugal), except if any Tax withholding exemption or waiver applies, in which case such payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, Taxes (investors being in any case required to comply with the applicable obligations). The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. In order for withholding tax not to apply the holders of the Covered Bonds must, *inter alia*, deliver certain tax certifications. See *Taxation* section.

7.2 No payment of additional amounts

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

7.3 Taxing Jurisdiction

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

7.4 Tax Deduction not event of default

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

8. PRESCRIPTION

The Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and 5 years (in the case of interest) in each case from the Relevant Date thereof, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent, on or prior to such due date, it means the date on which, the full

amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

9. INSOLVENCY EVENT AND ENFORCEMENT

9.1 Insolvency Event

Pursuant to the Covered Bonds Law, if an Insolvency Event in respect of the Issuer occurs, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest.

For the purposes of these Terms and Conditions: “**Insolvency Event**” means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, as amended, the Credit Institutions General Regime and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004, as amended. Investors should see the *Insolvency of the Issuer* section.

9.2 Enforcement

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

10. AGENT AND PAYING AGENTS

- (A) The names of the Agent and the Paying Agent and their initial specified offices are set out below. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of

Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.

- (B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:
 - (i) there will at all times be an Agent;
 - (ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe;
 - (iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority;
 - (iv) the Issuer will ensure that it maintains a Paying Agent in a Member State of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC of 3 June 2003, on taxation of savings income in the form of interest payments, or any other Directive or any law implementing or complying with, or introduced in order to conform to such Directive.

11. NOTICES

Notices to the holders of Covered Bonds shall, in respect of the Covered Bonds listed on Euronext Lisbon, be published on the Euronext bulletin (if applicable) and on the CMVM's information system (www.cmvm.pt). Furthermore, any such notice shall be disclosed by any further means required to allow a fast access by all holders of Covered Bonds throughout the EU and shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

All notices regarding the Covered Bonds shall comply with the Portuguese law requirements that may be applicable, namely pursuant to the Portuguese Companies Code and CMVM Regulation 5/2008, as amended.

12. MEETINGS OF HOLDERS OF COVERED BONDS

- (A) The Portuguese Companies Code, which applies to Covered Bonds in accordance with Article 14.1 of the Covered Bonds Law, contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them

by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

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

Resolutions involving the increase of the charges to holders of Covered Bonds require unanimity to be approved.

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

- (D) A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of

such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto mutatis mutandis.

- (E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a “**Programme Resolution**”) shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.
- (F) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General Meeting of Shareholders of the Issuer; if both the Common Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5 per cent. of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.
- (G) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.
- (H) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

- (A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such holders of Covered Bonds by a Resolution or by a written resolution of such holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.
- (B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in

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

14. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS

14.1 Maintenance of overcollateralisation

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

- (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and
- (ii) without prejudice to (i) above, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) if this could result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch.

14.2 Issuer Covenants

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

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

15. FURTHER ISSUES

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

shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

16. GOVERNING LAW

The Common Representative Appointment Agreement, the Set of Agency Procedures, the Covered Bonds, the other Programme Documents and any non-contractual obligations in connection therewith are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

17. DEFINITIONS

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

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

“Affiliate Member of Interbolsa” 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.

“Agent” means Banco Santander Totta, S.A., in its capacity as Agent, with its head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, or any successor Agent(s), in each case together with any additional Agent(s), appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

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

“Base Prospectus” means this base prospectus dated 29 July 2015, as supplemented, prepared in connection with the Programme.

“Bearer Covered Bonds” means any Covered Bonds issued in bearer form (*ao portador*).

“Calculation Agent” except if and where defined otherwise in this Base Prospectus, has the meaning ascribed to it in the Final Terms.

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

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

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

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

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

“**Cover Pool Monitor**” means PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, 1, 3º, 1069-316 Lisbon, Portugal.

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

“**Covered Bonds Law**” means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended.

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

“**EU**” means the European Union.

“**EUR**”, “**€**” or “**Euro**” or “**euro**” means the lawful currency of Member States of the EU that adopt the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty.

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

“**Final Terms**” means the final terms issued in relation to each Tranche of Covered Bonds and giving details of that Tranche of Covered Bonds and, in relation to any particular Tranche of Covered Bonds, applicable Final Terms means the Final Terms applicable to that Tranche of Covered Bonds.

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

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

“**Hedge Counterparties**” means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

“**Instruction 13/2006**” means the regulatory instruction (*Instrução*) 13/2006 issued by the Bank of Portugal and published on 15 November 2006, relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

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

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

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

“**Mortgage Credit**” means a credit receivable granted by the Issuer secured by a Mortgage and/or any Additional Security, which is registered as being comprised in the Cover Pool for the amount and with the characteristics required to be indicated pursuant to the Covered Bonds Law and which complies with the following eligibility criteria established in the Covered Bonds Law:

- (a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by a first

ranking mortgage over residential or commercial real estate located in an EU Member State;

- (b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all mortgage credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;
- (c) it is a receivable secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

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

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

“Other Assets” means all assets other than Mortgage Credits and Hedging Contracts which are included in the Cover Pool as specified in the Register, which comply with the following criteria:

- (a) deposits with the Bank of Portugal in cash, or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a minimum long term rating at least equal to “A2” or “A” or equivalent and a minimum short term rating at least equal to “A-1”, “P-1” or “F1” or equivalent; and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

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

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

“Overcollateralisation Percentage” means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) without prejudice to (i) above, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14

(*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) if this could result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch.

“Paying Agent” means Banco Santander Totta, S.A., in its capacity as Paying Agent, with its head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, or any successor Paying Agent(s), in each case together with any additional Paying Agent(s), appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

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

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

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

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

“Reference Banks” means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page or, if applicable, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

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

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

“Regulatory Notice 5/2006” means the regulatory notice (*Aviso*) 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate

assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“Regulatory Notice 6/2006” means the regulatory notice (*Aviso*) 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“Regulatory Notice 7/2006” means the regulatory notice (*Aviso*) 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

“Regulatory Notice 8/2006” means the regulatory notice (*Aviso*) 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

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

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

“Relevant Screen Page” has the meaning ascribed to it in the Final Terms.

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

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

“Set of Agency Procedures” means the set of agency procedures dated 4 April 2008 (as amended and restated) and made and agreed by Banco Santander Totta, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent, and/or agent bank appointed by the Issuer.

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

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

“TARGET2 System” means the Trans-European Automated Real-time Gross Settlement Express Transfer Payment System which utilises a single shared platform and which was launched on 19 November 2007 (TARGET2).

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

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

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

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

“Treaty” means the treaty on the Functioning of the EU, as amended.

“Value” means:

- (a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;
- (b) in relation to any Other Assets:
 - (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

- (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

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

CHARACTERISTICS OF THE COVER POOL

INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, covered bonds may only be issued by duly licensed credit institutions that are allowed by law to grant mortgage loans and that have not less than €12,500,000 in own funds. The Issuer meets each of these requirements and thus is qualified to issue covered bonds under the Covered Bonds Law.

ISSUER REQUIRED TO MAINTAIN COVER POOL

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

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

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

ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

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

Mortgage Credits Eligibility Criteria

Pecuniary credit receivables of the Issuer which are not yet matured and neither subject to conditions nor encumbered, judicially seized or apprehended and secured by:

- (a) first ranking mortgages over residential or commercial real estate located in an EU Member State or

- (b) junior mortgages but where all mortgage credits ranking senior thereto are held by the Issuer and are also allocated to the Cover Pool; or
- (c) a personal guarantee granted by a credit institution or an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

“Other Assets” Eligibility Criteria:

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

- (a) deposits with the Bank of Portugal in cash, or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a minimum long term rating at least equal to “A2” or “A” or equivalent and a minimum short term rating at least equal to “A-1,” “P-1” or “F1” or equivalent; and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

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

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

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

HEDGING CONTRACTS

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

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) in a recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least “A-”

or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice (*Aviso*), the eligibility criteria for hedging contracts to form part of the Cover Pool.

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

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

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

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of a mortgage credit granted by the Issuer and registered as being comprised in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, and (ii) 80 per cent. of the value of the Property, if it is residential property, or 60 per cent. of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

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

OVERCOLLATERALISATION

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

In compliance with the above legal requirements, Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool with respect to outstanding Covered Bonds at a minimum level of 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are

Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) without prejudice to (i) above, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) if this could result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch. See *Terms and Conditions of the Covered Bonds*.

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

- (a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;
- (b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;
- (c) in relation to any Other Assets:
 - (i) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
 - (ii) securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the ECB as a reference.

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

BST decided, to the benefit of the holders of Covered Bonds, from 25 July 2013, to apply an Overcollateralisation Percentage (mentioned in Condition 14.1 (*Maintenance of Overcollateralisation*) of the Terms and Conditions of the Covered Bonds) of 115 per cent.. This percentage may be subject to change in result of requirements from Rating Agencies and/or the ratings envisaged by BST for the Covered Bonds.

COMPLIANCE WITH FINANCIAL REQUIREMENTS

The Cover Pool Monitor, pursuant to the Covered Bonds Law and in accordance with the terms set forth in the Cover Pool Monitor Agreement, must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulatory Notices described in this section. The Issuer must, as soon as practicable after becoming

aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

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

VALUATION OF COVER POOL

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

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

Pursuant to the above, the valuation requirements applicable to the Properties are set out in Regulatory Notice 5/2006.

Valuation of Properties

General Overview

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

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

Valuation by expert

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

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

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

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the real estate valuation expert in the Property subject to the valuation, (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

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

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

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

Methods of valuation

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

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

Valuation report

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

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

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

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

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

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

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

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

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

Valuation of Other Assets

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

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

Insurance

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

COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE

Autonomous pool of assets and segregated register

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

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

- (a) the outstanding principal amount;
- (b) the applicable interest rate;
- (c) the applicable maturity;
- (d) the notary's office where the relevant mortgage was entered into, when applicable; and
- (e) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

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

Special creditor privilege

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

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

INSOLVENCY OF THE ISSUER

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

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

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

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

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

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

- (a) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;

- (b) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:
 - (i) selling the Mortgage Credits comprised in the Cover Pool;
 - (ii) ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool;
 - (iii) performing administrative services in connection with such Mortgage Credits;
- (c) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and
- (d) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with Article 34 of the Covered Bonds Law.

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

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

BNP Paribas Trust Corporation UK Limited, with registered office at 55 Moorgate, London EC2R 6PA, United Kingdom, is a wholly owned subsidiary of BNP Paribas Securities Services, incorporated in the UK, authorised and regulated by the Financial Conduct Authority and has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement. The Common Representative is an entity authorised to represent investors in the United Kingdom.

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

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative. The removal of any Common Representative shall not become effective unless there shall be a Common Representative in Office after such removal.

COVER POOL MONITOR

APPOINTMENT OF A COVER POOL MONITOR

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

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related to or associated to any group of interests within the issuing entity and is not in a position that hinders its independent analysis and decision-making process, notably in light of (i) holding 2 per cent. or more of the issued share capital of the Issuer, either directly or on behalf of a third party; or (ii) having been re-elected for more than two terms, whether or not they are consecutive.

The Issuer is responsible for paying any remuneration or other money payable to the Cover Pool Monitor in connection with the Cover Pool Monitor’s responsibilities in respect of the Issuer and the holders of Covered Bonds.

ROLE OF THE COVER POOL MONITOR

Pursuant to the Cover Pool Monitor Agreement, dated 4 April 2008, as amended and restated for the last time on or about 14 July 2016, the Issuer appointed PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda. as Cover Pool Monitor. PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda. is registered with the CMVM under registration number 20161485.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool Monitor, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

DUTIES AND POWERS OF THE COVER POOL MONITOR

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer with the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulatory Notices in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be

engaged to assess compliance by the Issuer with the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*).

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

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

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice (*Aviso*), after consultation with the CMVM and the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), the requirements applicable to the content and disclosure of the aforementioned annual report. As long as such requirements are not defined by the Bank of Portugal, such content and disclosure will be agreed between the Issuer and the Cover Pool Monitor pursuant to the Cover Pool Monitor Agreement.

If, during the work referred to in the precedent paragraph, any non-compliance with the Covered Bonds Law and/or the requirements of the Cover Pool is identified by the Cover Pool Monitor, it shall notify the Issuer, as soon as reasonably practicable, of such event. If the non-compliance remains unremedied within 10 Business Days after such notification, the Cover Pool Monitor will notify the Common Representative, the Arranger and the relevant Dealers of such non-compliance.

REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR

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

At any time the Issuer may terminate the appointment of the Cover Pool Monitor and the Cover Pool Monitor may retire, upon giving not less than three calendar months' notice in writing to the Issuer. Any such termination or retirement shall not become effective until a new cover pool monitor is appointed.

DESCRIPTION OF THE ISSUER

Incorporation and Registered Office

Banco Santander Totta, S.A. (“**BST**”, the “**Issuer**” or the “**Bank**”) is a limited liability company (*sociedade anónima*) incorporated under the laws of Portugal with a registered and fully-paid share capital of €1,256,723,284.00, represented by 1,256,723,284 ordinary shares with a nominal value of €1 each, and registered in the Commercial Registry Office of Lisbon under the sole registration and taxpayer number 500 844 321. BST’s registered address is located at Rua Áurea, no. 88 in Lisbon, Portugal and its registered office telephone number is +351 21 3262031. The Issuer was registered by deed on 19 December 2004. The Issuer is a credit institution whose activities are regulated by the Credit Institutions General Regime (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), approved by Decree-law 298/92, of 31 December 1992, as amended, and is subject to the Portuguese Companies Code (Decree-law 262/86, of 2 September 1986, as amended).

Information from third parties

Where information has been sourced from a third party, the Issuer confirms that such information has been accurately reproduced and that, as far as the Issuer is aware and able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer calculates its market share data using official sources of information, governmental or otherwise (as applicable). Where no official sources exist, the Issuer relies on its own estimates.

Business overview

BST’s commercial banking business is managed through its retail network. The investment banking and investment funds businesses of BST, formerly managed through Banco Santander de Negócios Portugal, S.A. (“**BSN**”), are now directly managed by BST, following BST’s merger with BSN in May 2010. The specialised credit business (including leasing, factoring and consumer credit) is also directly managed by BST, following BST’s merger with Totta – Crédito Especializado, Instituição Financeira de Crédito, S.A. on 1 April 2011. The strategy of the BST Group is to position itself as a full service bank offering customers a full range of banking products.

The commercial banking business is divided into four core customer/business areas:

- (i) individuals and self-employed;
- (ii) small and medium-sized businesses;
- (iii) corporate and institutional customers; and
- (iv) high net worth individuals.

As of 31 December 2015 BST had a domestic network of 689 branches (compared to 555 in 31 December 2014) and a branch in London, as well as an offshore financial branch in the Autonomous Region of Madeira. BST has subsidiaries and representative offices abroad, as well as investments in subsidiaries and associated companies.

BST also has a long standing strategy to target the university market. It serves this market with branches located either within or near university campuses. In lower traffic sites BST also places small kiosks which serve its customers with limited services and shorter opening hours.

Economic and Financial Information in 2015

More detailed information regarding financial data or information followed by (Note [number]) which is mentioned in this section can be found in the Annex to this Base Prospectus - Alternative Performance Measures.

Consolidated Activity

Introduction

In a year still characterised by a difficult macroeconomic environment, BST demonstrated a capability of generating income, a capitalised balance sheet, and showed solvency and liquidity ratios above the required limits. Given the resolution measure applied to Banif on 20 December 2015, which resulted in the acquisition by BST of a set of rights and obligations, comprised of assets, liabilities, off balance sheet items and assets under the management of Banif at the end of the year 2015, some of the financial information disclosed below does not include the following effects of said acquisition of Banif: the results from the acquisition of the activity, integration costs, and amounts included in “other provisions”^(Note 1) since BST considers that these items do not allow to assess on the Issuer’s current activity. Such financial information in the management report is unaudited and has been extracted from BST’s 2015 annual report.

For the year ending 31 December 2015, BST had a net income of EUR 284.9 million ^(Note 1) (excluding badwill and associated provisioning from the acquisition of former Banif), an increase of 72.5 per cent. compared with EUR 165.2 million in the year ending 31 December 2014, a 24 per cent. growth in revenues and 3.5 per cent. reduction in operating costs.

Following the resolution measure applied by the Bank of Portugal to Banif, at the end of December 2015, BST acquired a credit portfolio amounting to EUR 6.5 billion^(Note 2) and a deposit portfolio amounting to EUR 4.43 billion. At 31 December 2015, the credit portfolio (gross value) stood at EUR 35.6 billion^(Note 3), a 28.2 per cent. increase relative to the previous year. Credit granted to corporates increased by 38.9 per cent. compared to the end of 2014. Credit granted to private individuals grew by 17.4 per cent. in the last year.

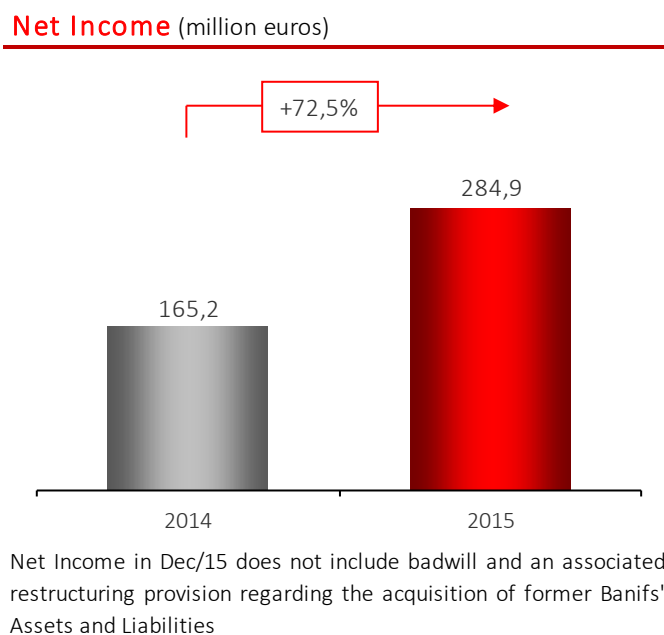
The credit at risk ratio decreased to 4.8 per cent. ^(Note 4) as at 31 December 2015, as compared to the 5.7 per cent. as at 31 December 2014, with a coverage ratio standing at 144 per cent. ^(Note 4) compared with 75.9 per cent. as at 31 December 2014.

Customer's resources amounted to EUR 31,9 billion^(Note 5) as at 31 December 2015 (considering balance sheet and off-balance sheet resources), a 19 per cent. increase relative to 31 December 2014, with a deposits evolving by 25.4 per cent..

The loan-to-deposit ratio^(Note 6), measured by the proportion of net credit in deposits, stood at 114.8 per cent., as at 31 December 2015, an improvement over the 116.0 per cent. obtained in 2014.

The Common Equity Tier 1 ("CET 1") ratio, in line with the CRD IV/CRR rules applicable in 2015, reached 13.9 per cent. and was set at 14 per cent. on a fully implemented basis. In 2015, BST returned to the international markets with one issue of covered bonds: a EUR 750 million issue with a 5-years maturity and a 0.875 per cent. coupon.

Net financing obtained with the Eurosystem^(Note 7) stood at EUR 2.1 billion in 2015, a reduction of EUR 1.7 billion when compared to 2014. The portfolio of credits eligible as collateral in financing operations with the ECB amounted to a total of EUR 11.3 billion as at 31 December 2015^(Note 7).



Profit & Loss Account

PROFIT AND LOSS ACCOUNT (million euro)

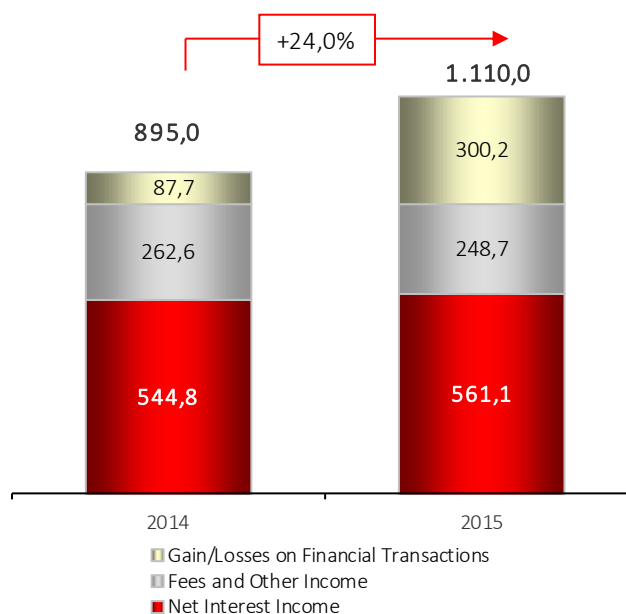
	2015	2014	2015/2014
Net Interest Income (without Dividends) ^(Note 8)	560,0	543,5	+3,0%
Dividends ^(Note 9)	1,2	1,2	-3,6%
Net Interest Income	561,1	544,8	+3,0%
Fees and Other Income ^(Note 10)	248,7	262,6	-5,3%
Commercial Revenue^(Note 11)	809,9	807,3	+0,3%
Gain/Losses on Financial Transactions ^(Note 12)	300,2	87,7	+242,4%
Operating Income^(Note 13)	1.110,0	895,0	+24,0%
Operating Costs ^(Note 14)	(469,9)	(487,2)	-3,5%
Net Operating Income	640,1	407,8	+57,0%
Impairment and Other Provisions ^(Note 15)	(236,2)	(192,5)	+22,7%
Results from Associated Companies	14,5	19,8	-26,7%
Income Before Taxes and MI	418,4	235,0	+78,0%
Taxes ^(Note 16)	(133,5)	(69,9)	+91,1%
Minority Interests ^(Note 17)	0,0	0,0	-17,6%
Net Income	284,9	165,2	+72,5%

Net interest income (without dividends) amounted to EUR 560 million at the end of 2015, a 3 per cent. increase when compared to the preceding year, deriving from an adequate management of assets and liabilities spreads, notwithstanding a reduced interest rate environment.

Net commissions and other results of the banking business amounted to EUR 248.7 million, with a 5.3 per cent. decrease as compared to the amount recorded in 2014 with an increase in commissions on accounts, on investment funds and on loans, although abated by commissions on means of payment, services and insurance.

Commercial revenue amounted to EUR 809.9 million in 2015, slightly above the value recorded at end 2014. Results of financial transactions amounted to EUR 300.2 million in 2015, a significant growth of 242.4 per cent. compared to 2014, reflecting the favourable impact of adjustments in the public debt portfolio, the exercise of the selling option of the shareholding in Partang (49 per cent.), which held a 51 per cent. shareholding in Banco Caixa Geral Totta Angola, in the terms of an agreement undertaken in June 2009, and the sale of the position in the “Multiobrigações” fund. Operating income amounted to EUR 1,110 million at the end of 2015, a 24 per cent. increase against the value recorded at the end of 2014, showing the progress obtained in net interest income and in the results of financial transactions.

Operating Income (million euros)



Total Operating costs totalled 469.9 million, a 3.5 per cent. reduction in the last year.

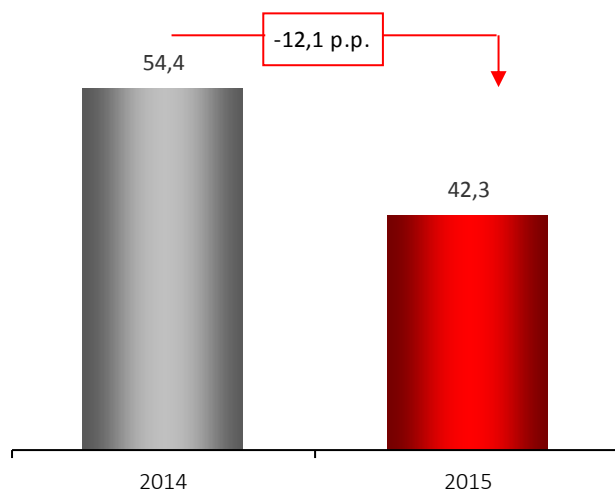
OPERATING COSTS AND EFFICIENCY

	2015	2014	2015/2014
Personnel Expenses ^(Note 18)	(275,6)	(281,6)	-2,1%
Other Administrative Expenses ^(Note 19)	(154,2)	(143,7)	+7,3%
Operating Costs	(429,8)	(425,3)	+1,1%
Depreciation ^(Note 20)	(40,1)	(61,9)	-35,1%
Total Operating Costs	(469,9)	(487,2)	-3,5%
Efficiency Ratio (excludes depreciation) ^(Note 21)	38,7%	47,5%	-8,8 p.p.
Efficiency Ratio (includes depreciation) ^(Note 22)	42,3%	54,4%	-12,1 p.p.

At the end of 2015, the efficiency ratio, which represents operating expenses as a percentage of operating income, stood at 42.3 per cent. decreasing by 12.1 p.p. compared with the value experienced in 2014.

Net operating income amounted to EUR 640.1 million in 2015, greater than the EUR 407.8 million recorded in 2014 (an increase of 57 per cent.).

Efficiency Ratio (%)



Total impairments and provisions stood at EUR 236.2 million, a 22.7 per cent. increase relative to the value booked in the same period of the previous year.

Results from associated companies recognised by the equity method, amounting to EUR 14.5 million, decreased by -26.7 per cent. compared to the value recorded in the last year, influenced by the disposal in July 2015 of the shareholding in Banco Caixa Geral Totta Angola.

Income before taxes and minority interests amounted to EUR 418.4 million and income from the business activity totalled EUR 284.9 million.

Balance Sheet and Activity

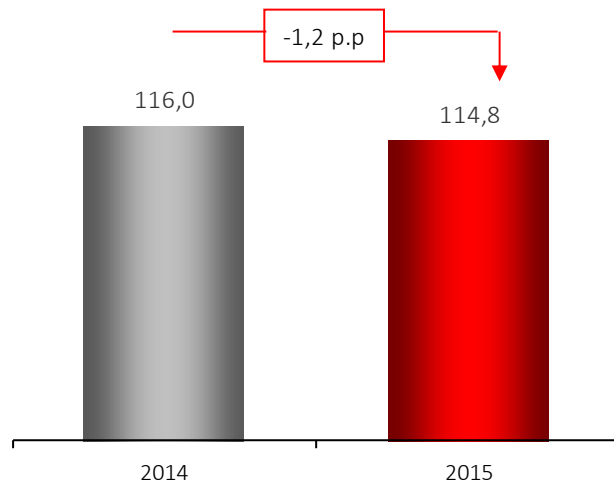
At the end of 2015, the volume of business amounted to a total of EUR 67.5 billion^(Note 23), a growth of 23.6 per cent. in comparison to the amount recorded at the end of 2014. This growth was due to the evolution evinced in Total Gross Loans (+28.2 per cent.) and customers' resources (+ 19.0 per cent.).

Business Volume (million euros)

	2015	2014	2015/2014
Business Volume	67 520	54 610	+23,6%
Total Gross Loans (includes guarantees)	35 587	27 769	+28,2%
Customers' Resources	31 933	26 841	+19,0%

The credit/deposits ratio^(Note 24) stood at 114.8 per cent. in 2015, diminishing by 1.2 per cent. as compared to 116 per cent. recorded in 2014.

Credits/Deposits (%)



The credit portfolio (including guarantees and sureties) totalled EUR 35.6 billion at end 2015, a 28.2 per cent. increase relative to the homologous period. Credit granted to companies amounting to EUR 13.6 billion^(Note 25) grew by 38.9 per cent., resulting from increases in new production and from the acquisition of the former credit portfolio of Banif, this segment now represents approximately 40 per cent. of the total Santander Totta credit. Credit granted to private individuals stood at EUR 19.5 billion^(Note 26), an increase of 17.4 per cent. compared to end 2014. Home loans amounted to EUR 17.2 billion^(Note 27), an increase of 16.4 per cent. increase from last year, not just due to the incorporation of the former portfolio of Banif, but also to the 101.8 per cent. increase in new loans, as compared with the amounts contracted in 2014, which abated the natural reduction resulting from repayments.

LOANS (million euros)

	2015	2014	2015/2014
Total Gross Loans (includes guarantees)	35.587	27.769	+28,2%
Gross Loans	34.126	26.685	+27,9%
<i>of which</i>			
Loans to Individuals	19.532	16.635	+17,4%
<i>of which</i>			
Mortgage	17.217	14.794	+16,4%
Consumer ^(Note 28)	1.937	1.381	+40,2%
Loans to Corporates	13.648	9.823	+38,9%

Credit at risk ratio stood at 4.8 per cent., a 0.9 per cent. reduction as compared to December 2014 and the respective coverage ratio stood at 144 per cent., as compared with 75.9 per cent. shown in the homologous period.

CREDIT RISK RATIOS (Note 4)

	2015	2014	2015/2014
Non Performing Loans Ratio	4,2%	4,4%	-0,2 p.p.
Non Performing Loans Ratio (+90 days)	4,1%	4,2%	-0,1 p.p.
Non Performing Loans and Doubtful Loans Ratio	4,1%	4,2%	-0,1 p.p.
Credit at Risk Ratio	4,8%	5,7%	-0,9 p.p.
Restructured Loans/ Total Loans	10,2%	9,4%	+0,8 p.p.
Restructured Loans not included in Credit at Risk/ Total Loans	8,4%	6,8%	+1,6 p.p.
Non Performing Loans Coverage Ratio	164,1%	99,6%	+64,5 p.p.
Non Performing Loans Coverage Ratio (+90 days)	168,9%	103,4%	+65,5 p.p.
NP Land Doubtful Loans Coverage Ratio	167,8%	102,5%	+65,3 p.p.
Credit at Risk Coverage Ratio	144,0%	75,9%	+68,1 p.p.

Total customers resources amounted to EUR 31,9 billion at the end of 2015, an increase of 19 per cent. when compared with the amount recorded in 2014.

Evolution in customers' resources was positively influenced by increases of 25.4 per cent. in deposits and 17.7 per cent. in investment funds by the Bank, compensating the decrease experienced in capitalisation insurance and other resources (-14.3 per cent.).

RESOURCES (million euros)

	2015	2014	2015/2014
Customers' Resources	31.933	26.841	+19,0%
On-Balance Sheet Resources	27.126	21.760	+24,7%
Deposits (Note 29)	27.126	21.626	+25,4%
Securities issued (Note 30)	0	134	-100,0%
Off-Balance Sheet Resources	4.806	5.082	-5,4%
Investment Funds	1.664	1.414	+17,7%
Insurance and Other Resources	3.142	3.667	-14,3%

Solvency ratios

Common Equity Tier 1 (CET 1) ratio, in line with the CRD IV/CRR rules applicable in 2015, reached 13.9 per cent., and standing at 14 per cent. on a fully implemented basis^(Note 31), a value that benefits from the EUR 300,000,000 share capital increase carried out on 30 December 2015 and registered before the commercial registry on 8 January 2016.

CAPITAL (million euros)

	2015	2014	2015/2014
Common Equity Tier I	2 635	2 086	+26,3%
Tier I	2 841	2 467	+15,2%
Total Capital	2 915	2 467	+18,2%
Risk Weighted Assets (RWA)	18 919	16 102	+17,5%
CET I Ratio	13,9%	13,0%	+0,9 p.p.
Tier I Ratio	15,0%	15,3%	-0,3 p.p.
Total Capital Ratio	15,4%	15,3%	+0,1 p.p.

Future Outlook

The development of the business in 2016 is conditioned by several risk factors related with the domestic and external economic environment, and in the context of regulation and supervision.

The uncertainty as to the growth dynamics in some of the emerging countries and its knock-on effect on the developed economies could affect the confidence of the business community and materialise some of those latent risks into a more pronounced generalised slowdown in activity. Other risks accrue which carry over from 2015, such as the interest rate increase cycle in the USA, the migrant crisis in Europe and the geopolitical pressures in the Middle East.

Conditioning factors in Portugal are various. The modest context of economic growth and the deleveraging process of the private non-financial sector may contribute towards a more gradual expansion in business volumes. The confidence of the business community will depend upon the evolution of the European economy on the one hand and, on the other, from budgetary execution. During the year the Bank of Portugal should resume the selling process of Novo Banco, which had been discontinued at the end of Summer in 2015.

The monetary policy being carried out by the ECB may also affect the business of the banking industry, resulting from the decrease in the reference interest rates. Lower negative rates could affect the industry's profitability, since these cannot be totally passed on to the banks' assets and liabilities, with the consequent decrease in net interest income.

From the regulatory point of view, there is an ongoing analysis over a number of proposals by the Basel Committee on the calculation criteria of capital usage, including the treatment of the sovereign debt by the banking industry.

In 2016, and within the scope of the creation of the Banking Union, the Single Resolution Mechanism is coming into effect, which will also be responsible to set the minimum requirement to absorb losses (MREL), and complied with by the European banking institutions, and which reinforces the requisites for minimum own funds. In 2015, the Bank guided its business activity in line with the strategic priorities and corporate culture of a Simple, Personal and Fair Bank.

BST has shown a resilient capacity of generating revenue, while maintaining a stable balance sheet and liquidity situation. In 2016, one of the main objectives of BST is to continue increasing the return on equity, and thus the growth of net interest income will be a critical factor in the increase of the Bank's revenues, through the balanced management between the normalisation in liability costs and the growth in business volumes.

BST will continue to be focused on its strategy of supporting the revitalisation of the Portuguese economy and of the companies, keeping up a policy of rigorous control of the risks surrounding the granting and credit follow up.

Simultaneously, BST will continue its commercial banking strategy based on greater customer proximity, presenting solutions adequate to each business segment with the objective of increasing the levels of customer bond and ensuring that BST is their primary Bank. This strategy will be based on: (1) further simplification of processes and making them more efficient; (2) use of devices that allow improved information management; and (3) streamlining risk management, with better adjusted models to each customer segment, keeping to a prudent and rigorous management of the risks undertaken.

Although the branch network remains a fundamental channel in customer relations, BST will continue to strengthen the model of multichannel distribution in order to render customers a more complete and accessible service.

Business Areas overview

Commercial Banking

Private and Business

In 2015, the Bank guided its business activity in line with the strategic priorities and corporate culture of a simple, personal and fair bank. In a rationale of diversification of customers' savings portfolios, the Bank maintained its continuous offer of indexed deposits and investment funds, which resulted in a EUR 757 million increase in resources.

In the case of credit, and answering customers' needs of support for their projects, a 101.8 per cent. increase was recorded relative to the homologous period in the production of home loans and 4.4 per cent. increase in the production of personal loans. In the case of Business/SME credit there was a 23 per cent. growth in production relative to the homologous period, much sustained by the expansion in the credit worthy customer base, which allowed a positive evolution in this segment.

March 2015 was also marked by the launch of Mundo 1|2|3, a solution steered towards the Bank's private individuals which, in addition to the advantages of a combined account, can provide a further set of benefits, via cash-back in the Mundo 1|2|3 card account. At year end, more than 106,000 customers had adhered to the Mundo 1|2|3 account. This solution has allowed the Bank to increase the capture of new customers and strengthen relations with existing customers.

In the credit card heading a net variation of more than 40 thousand active cards was recorded. During the year more than 56 thousand credit card customers were recorded, as well as a 3.1 per cent. growth in the bound customer base.

With regard to investment funds marketed by BST, the total of assets under management in securities investment funds represented, at the end of 2015, a 13.2 per cent. market share.

The range of Santander Select/Private funds recorded a growth of EUR 336.2 million. This series led the growth in funds in 2015 and its total volume rose to EUR 631.3 million.

Real estate investment funds amounted to a total of EUR 478.9 million, at the end of 2015.

Private Banking and Select

In the area of Private Banking, 2015 confirmed the soundness and the consistency of the service rendered to customers, based upon a differentiating business model, with great proximity and a wide range of financial solutions within an open design with the intent of fulfilling their financial needs.

The work developed throughout the year was also recognised by the market and its players, through the award of three prizes referenced in the industry, the Bank having been distinguished as comprising the best area of Private Banking operating in Portugal, in line with the opinions of the highly regarded editors of Euromoney, PWM/The Banker and Global Finance.

The Select brand, created for affluent private individuals and launched in February 2014, has been positioning itself in the market as a reference and as a partner in customers' projects. The commercial model was expanded in order to guarantee further cover and better quality of service. Simultaneously, BST is focusing largely in the streamlining of digital coverage, providing Select customers with a set of wider online functionalities.

Corporates

The corporates' segment continued deserving, in 2015, special regard in BST's global business, with the growth in the credit portfolio being maintained as the strategic axis in the Bank's activity. Within this scope, and jointly with governmental bodies, several credit lines were made available throughout the year in support to companies' businesses with special regard to SMEs. The line of credit agreed with the European Investment Bank (EIB), amounting to EUR 200 million which commercialisation began in November 2014, intended to support SMEs, Mid-Caps and small and medium sized infrastructure of public sector bodies and public or private higher education establishments, was totally placed in the first half of 2015. On 27 November, BST renewed the partnership with EIB, subscribing a new line of credit amounting to EUR 500 million, with the freeing of a first tranche of EUR 200 million, of which EUR 168 million have already been placed with corporates.

In the SME Growth lines, BST continued maintaining a leadership position in the placing of these lines with companies. In the 2014 SME Growth line, the marketing of which ended on 30 April 2015, BST stood out as leader with an 18.5 per cent. share in the amount of financing of operations contracted with SME Investment operations. In the 2015 SME Growth line, which started in April 2015, the Bank also leads with a 19.4 per cent. share, corresponding to 2,029 operations comprised within SME investment, with a total of EUR 270 million in approved financing (source: PME Investimentos – Sociedade de Investimento, S.A.) .

With the objective of strengthening its presence in the agro-food industry, considered essential for the growth of the Portuguese economy, the Bank launched, in the first quarter of the year, the “Agriculture Solution”, with a competitive and differentiating offer of services. It is intended, with this offer, to support the normal business of primary sector companies, namely via the availability of short term lines with bonus provided by IFAP (Agriculture and Fisheries Financing Institute) to support agricultural campaigns and by advancing the value of aids to revenue established by the Common Agricultural Policy, and subscribed, for the purpose, a protocol with the Federation of Portuguese Farmers, intended to facilitate the access to such advances to the farmers which are members of the Confederation.

Together with these credit lines, and in order to maximise customer capture and their transaction possibilities, the Bank also made available a campaign with the offer of a gift (a mini Ipad or a LED TV set) for the domiciling of these supports with the bank during two years in a current account with automatic cash management.

The Bank equally promoted a set of initiatives confirming its presence in this industry, namely the participation and sponsorship of the “Cycle of Conferences of the Vida Económica Magazine” where topics of interest and relevance for the industry were presented; the presence in fairs such as Ovibeja and National Farming Fair and the partnership with specialised consultants for the rendering of technical support to customers in the carrying out of their projects. In October, the Bank, in close cooperation with EDIA (Alqueva Development and infrastructure Company, S.A.), organised an entrepreneurial mission to the Alqueva complex, inviting more than 20 Portuguese and Spanish companies and farmers to take part, with the objective to become acquainted with the potential for agricultural and agro-industrial investment in the area of intervention in the Alqueva hydro-agricultural complex.

For the support of investment projects possible to become framed in the programme of incentives to economic investment and job creation - Portugal 2020 - BST launched an integrated solution comprising a set of financial products, specifically through advances of the incentives approved by the medium/long term financing line to supplement the sources of finance for the projects, and by a line of bank guarantees to be rendered to the management bodies of Portugal 2020. Within this range, partnerships were also established with the more relevant consultants to provide support to companies, with the aim to disseminate and explain the details of the Portugal 2020 programme.

The Santander Advance, a programme launched at the end of 2014, and which offered companies, with distinctive market originality, an integrated set of financial and non-financial solutions, consolidated in 2015 this BST brand with the companies segment. The Advance credit line with an interest rate bonus due to subscribing the Bank's products and services provided finance to 1,630 companies amounting to a total of EUR 45.6 million.

Specialised credit recorded a 72 per cent. growth in production relative to 2014, with special regard to real estate leasing, supported both by the recovery in this business, as well as by the divestment in real estate. Also to be noted was the positive evolution in the production of automobile leasing (+76 per cent.) and equipment (+53 per cent.), resulting from the moderate economic recovery.

During 2015, Banco Santander Totta developed new technological solutions which allowed improvement in the quality of products, solutions and services which it makes available to its customers with external business and by widening their distribution channels. Highlighted are the Trade Finance electronic platform as well as the factoring and confirming solutions in euros and other currencies.

In partnership with international organisation, namely the International Chamber of Commerce, several workshops were set up intended for companies in which practical topics were dealt with related to exports and imports, as for instance incoterms, contracts, customs issues, among others.

The Bank has been consolidating its standing in the Portuguese market as one of the main banks supplying international banking products and services, having been singled out, in 2015, with the "Best Trade Finance Bank Award" attributed by Global Finance.

Promoters and brokers

The Channels of External Promoters and Real Estate Brokers were the object, in 2015, of emphasised growth in the production of home loans which largely overcame all the objectives set.

Several factors contributed towards these results, namely the Bank's greater appetite in credit capturing, a more favourable environment in the real estate industry and sound work carried out in streamlining the network of real estate brokers with whom the Bank has established protocols.

Many partnerships were reactivated and others established, in 2015, with new real estate brokerage companies. Just like in previous years, the Bank was strongly represented in the annual conferences of the main real estate brokers, participating, again in the SIL – Portuguese Real Estate Exhibition with a stand almost exclusively dedicated to capture new home loan operations.

Although the focus in the second half year was mainly set on the capturing of customers and operations via the broker's channel, the regard given to external promoters was not minimally affected. A proximity policy was maintained with these partners who also achieved excellent results in home loans, supplemented by very positive contributions in business features such as personal credit and credit to companies, and also in binding features such as the transforming/capturing of Mundo 1|2|3 and digital customers.

Still concerning the project of promoter outlets, 26 more were opened in the second half year, thus reaching a total of 50 openings in the year, the Bank now having 320 outlets in operation. This outlet network, which supplements the branch network, has been experiencing sustained growth, more than ever contributing towards capturing business and customers.

Complementary Channels

2015 provided continuity to the implementation strategy of the Multichannel Transformation Plan, incorporating the positioning established by the Group for direct channels with the objective of being nearer to its customers and enabling the digital offer of the Bank's services.

In this context, a number of undertakings and improvements was implemented, with the objective to widen the offer and to substantially improve the customers' experience with faceless channels.

Self-banking

The SelfBanking activity was focused on the placing in practice of the strategy and action plans established for the increase in business, for the service rendered to the customer and for the increase in the use of automatic equipment.

The launching of the streamlining plan for the use of equipment, which aimed to supply training to, and acquaint the branches with the functionalities and benefits of customer service, and the increase in the number of new functionalities, amongst which stands out the forwarding, by electronic mail, of the digital receipt of operations carried out, strengthened the offer of customer services.

Continuity was equally provided to the plan for the renewal of electronic equipment, with the replacement of more than 80 items installed in branches. Within technological innovation, the project for ATMs enabled to re-circulate deposited banknotes was consolidated, with 20 items of equipment with this capability installed in 2015.

The number of ATM's in the Multibanco network decreased slightly; however, market shares continued stable as compared with the previous year, with figures of 12 per cent. in number of ATMs and 13 per cent. in number of operations (Source: SIBS).

Internet Channels (Netbank)

The NetBanco Private, the channel with largest focus on sales and an integral part of customer relations, the highlight goes to the enlargement in the offer of autonomous insurance for contracting and the possibility of contracting financial insurance. The introduction of regulatory updates to comply with legal requisites is also part of the set of alterations carried out. In Private Mobile, the year was highlighted by primordial developments in the Mobile channel. An App was launched with a modern design and simple and intuitive surfing, fully renewing all the bank's image in the available digital service via tablets and smartphones. In addition to improvements in design and surfing, new functionalities were introduced, such as the possibility of access through a PIN code, buttons for swift access to the more common banking operations and an optional "confidential mode" that inhibits the availability of account balances. The new App was also launched with a Portuguese and English version.

A Smart Watch was also launched – which allows consulting balances and operations in this type of device.

A clear stake was placed in the NetBanco Corporate platform, namely in its transactional, design and surfing possibilities, with levers for the capturing and binding of company customers. Standing out amongst the main achievements are the redesign of the platform, the new card functionalities, the widening of the offer of digital documents (TPA statements, guaranteed current account, etc.) and circulating balances and alerts.

The number of users of digital channels experienced a positive evolution in 2015, with the highlight going to the Mobile channel with an annual growth in excess of 80 per cent., result of the great effort placed on the improvement of this channel.

Contact Centre

In 2015, the Santander Totta Contact Centre was considered the "Best Contact Centre in the Portuguese Financial Sector", the prize attributed by the Portuguese Contact Centre Association.

The Contact Centre has strengthened the investment placed in the increase of its autonomy and in the swift resolution of all the situations put forward by the customers. All customers' requests even if outside the scope of the Contact Centre, are followed by the competent areas and swiftly resolved.

Several actions were launched in the Corporate and Business segments, amongst which stands out the launching of the Corporate Service Centre whose objective is to guarantee the following up of all the operational requests that company customers usually place with the Corporate Commercial Departments and, simultaneously, to ensure a swifter answer and improved customer experience. This project is still in the pilot stage, currently with four Corporate Commercial Departments.

The systematic generation of commercial leads for the branch network was strengthened, following the detection of sales opportunities in customer contacts.

The Contact Centre set up a team of specialists to support customers and employees in Mundo 1|2|3 which also ensures attendance to contact requests placed with the site.

Social Networks

The number of fans of the Bank's institutional Facebook page increased by 185,853 in 2015, allowing the Bank to reach 250,000 fans and thus the Portuguese Bank with the greater number of Facebook fans. This annual growth (285 per cent.) was achieved with the reinforcement of publicity in Facebook and with the launching of pastimes and sundry initiatives.

Standing out in the main actions carried out in 2015 was the strong support provided to the launching of Mundo 1|2|3. This was the target of transversal communication in the social networks, with special regard to the dissemination of the campaign video in YouTube and in Facebook and, since it's launching, a weekly pastime dedicated to Mundo 1|2|3.

The Bank is currently present in six social networks: Facebook, Twitter, LinkedIn, YouTube, Instagram and Google+.

International Business/Activity

The business volume in the Foreign Residents area showed growth levels, signalling the trust placed by customers with the Bank and, similarly to previous years, a growth was experienced in the capture of new customers.

Commercial strategy was focused on security and profitability, with conditions adequate to the market situation, and thus allowed a growth in the volume of resources and transfers, with the credit portfolio showing encouraging signals in the reversion of the reduction trend in spite of repayments.

Within the greater proximity strategy, strong support was maintained by external units to the Portuguese who work and reside abroad, thus guaranteeing an offer of services amongst which stands out the streamlining of the APP, Mobile and Netbanco, in addition to the diversification in savings products linked with the commercial network in Portugal.

Similarly to the previous year and linked with the newspaper with the largest circulation in the communities, the “Mundo Português”, interviews were conducted with the officers responsible for the Bank’s commercial areas in order to highlight the offer of services.

In support to the communities in the countries where Santander Totta is represented, meetings with customers were held, in 2015, in Zurich, Geneva, London, Paris and Lyon, in which it was possible to dialogue and endeavours made to transmit the Bank’s values and its availability to support the community.

The Summer 2015 campaign was carried out and evinced great receptivity and satisfaction from customers. Offers were prepared valuing national products with specialised attending and great proximity in the branches with greater preponderance in the segment.

Communications campaigns were also carried out in airports and in the main branches, encouraging customers to transfer funds to Portugal in which a strong growth (35 per cent.) was experienced. Equally to be highlighted in 2015 were the very significant exchange rate changes in Switzerland over which the central bank had no further interference.

The commercial activity of the London branch maintained its focus on relations with the Portuguese residing in the United Kingdom, with special regard to the capture of new customers and in support for transfers.

Global Corporate Banking

The Financing Solutions & Advisory area developed, in 2015, intense activity, accompanying companies’ trends in discovering new investment opportunities, with highlights for the following operations: (1) Consultancy and financing in the acquisition of the Vilamoura Resort by Lonestar; (2) Financing of the privatisation of the Lisbon Oceanário (Aquarium); (3) Financing the privatisation of EGF (Empresa Geral de Fomento); (4) Consultancy in the ENEOP2 asset split; (5) Consultancy to First State Investments in the acquisition of Finerge and in the structuring and setting up of the financing of the operation; and (6) Consultancy to Lancashire County Pension Fund in the acquisition of a minority share in the portfolio of wind energy assets of EDF Energie Nouvelles in Portugal.

The Fixed Income & FX (FIC) area has been supporting Portuguese companies through the presentation of solutions for the mitigation of financial risks, namely interest rate and Exchange rate risks. In this area, the Bank has made available specialised accompaniment, comprising the market perspectives in the different alternatives of risk management, both in the interest rate feature and in the support provided to international trade and external investment. As such, the support provided to the internationalisation of domestic companies should be highlighted, namely: (1) by reinforcing the stake placed on products that improve efficiency in the management of the Exchange rate risk and, (2) by the greater proximity to importing and exporting companies aiding the management of flows arising out of their trade.

In the Structured Products area, 2015 recorded a fair performance in the marketing of liability products. Nineteen structured products were issued during the year, of which fifteen were euro denominated products amounting to a total of EUR 899 million and 4 US Dollar denominated products amounting to a total of USD 57.3 million. The issues placed in this period are indexed to different assets transacted in equity markets in diverse geographical locations.

Risk Management

For BST, the quality of risk management is a fundamental basis of operation, within the corporate policy of the Group in which it is comprised. Prudence in risk management allied to the use of advanced management technologies has been a decisive factor in the achievement of the Bank's objectives.

Credit Risk

Main vectors of activity

In 2015, the activity of the area of Credit Risks had the following main vectors:

- maintenance of the segmentation principle in the treatment of credit risks, varying the approach to risks in line with customers' profiles and products' features;
- reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming to preserve the loan portfolio quality;
- concerning standardised risks customer proximity was intensified in order to anticipate their credit requirements, review their credit lines and foresee possible issues in their repayment capability;
- this action and the level of the customers' credit quality allowed maintaining non-performing loans and credit at risk ratios below the average of the industry. On another hand, support levels to the business in the capture of good risk customers were intensified and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;

- as to the following up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment with the objective of mitigating the non-performing loans ratio;
- several measures were implemented in the management of the admission process of new credits, with the objective of improving the quality of service rendered to customers whenever they present new credit opportunities;
- with massive treatment (or non-standardised) risks the Bank, aiming towards continuous improvement and efficiency in the admission procedures, and taking into account the objective of portfolio quality, maintained the automatic decision models, namely scorings and behavioural systems used in the Private individuals and Business segments;
- still considering the massive treatment risks, focus was kept on maintaining the quality of the portfolio, acting upon the slowdown in management and non-performing loans and continuing to provide a set of products and solutions for debt restructuring which allow adapting customers' expenditure to their current and future repayment capability and available income;
- with this in mind adequate admission strategies are being defined in the Bank's decision system and behavioural systems are used to identify prevention and reappointment measures to be offered to customers;
- with the objective to strengthen the commercial involvement and customer cross selling and simultaneously energise the capturing of new customers, several commercial campaigns were continued directed towards the Business segment, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- in an adverse macroeconomic scenario, where the ratios of non-performing loans are still significant, a strong focus was placed on the recoveries activity level, strengthening the swiftness of intervention. To be highlighted is the activity carried out in the management of massive recoveries, whilst simultaneously keeping a permanent follow up of special cases and judicial or extra judicial procedures;
- also continued was the negotiation policy aiming to resolve the number of pledges in order that, when these occur, preference is given to obtain this type of payment in lieu of judicial court actions;
- the process of modernisation of the Recoveries area was continued, also based on computer developments judiciously signalled by the users as necessary and that aim to control the total process from the entrance into recoveries, and cover relations with attorneys and executive actions;

- surveillance continued on working methodologies aiming to optimise the several procedures with the objective to “stress” the model, increasing the efficiency of resources and the effectiveness of actions to allow anticipating credit recovery;
- considering risk control and consolidation, permanent focus was maintained on the insight and follow-up of the credit portfolio, aiming towards a strict risk control, endeavouring to provide adequate and timely management information, in order to allow measures to be taken for the correct management of the Bank's risks; and

attention was equally kept on the Bank's internal models, most of which already recognised (by the regulators) as advanced models (IRB), for the purpose of calculating the requirement of own resources as well as their increasing integration in management.

Risk model

Introduction to the treatment of credit risk

Credit risk arises from the possibility of losses resulting from total or partial non-performance of the contractual financial obligations between BST by and its customers.

The organisation of the credit risk function in BST is specialised in line with customer types and is differentiated, throughout all the risk management process, between customers in portfolio and standardised customers (not in portfolio):

- customers within the portfolio are those that, fundamentally due to the assumed risk, have been attributed a risk analyst. Included in this group are companies from the wholesale banking groups, financial institutions and some of the companies from the retail banking groups. Risk assessment of these customers is carried out by the analyst, and complemented by decision supporting tools based on internal models of risk evaluation;
- standardised customers are those that have not been assigned a specific analyst. Included in this group are risks associated with private customers, self-employed entrepreneurs, and companies from the retail banking groups that are not included in the portfolio. Assessment of these risks is based upon internal models of valuation and automated decision supplemented by specialised risk analysis teams when the model is not sufficiently accurate.

Rating/scoring tools

BST uses its own models for attributing solvency classification or internal ratings for the different customer segments, to measure the credit capacity of a customer or a transaction with each rating corresponding to a probability of non-performance.

Global classification tools are applied to country risk segments, financial institutions and wholesale banking groups, both in determining their rating in following up the risks assumed. These tools attribute a rating to each customer as a result of a quantitative, or automatic, module, based upon

balance sheet data and/or ratios, or macroeconomic variables complemented by the analysis carried out by the risk analyst that follows up the customer.

In the case of companies and institutions comprised in retail banking groups, the ascribing of a rating is based on the same modules as those referred above, in this case quantitative or automatic (analysing the credit behaviour of a sample of customers and its correlation with a set of accounting data and ratios), and qualitative, in line with the analysis of the risk analyst, whose duty is to carry out a final revision of the attributed rating.

Attributed ratings are periodically revised, incorporating any new financial information that has meanwhile become available as well as, qualitatively, the experience deriving from the existing credit relationship. This periodicity increases in case of customers for which the internal alert systems and risk classification so demand.

For the portfolios of standardised risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented to automatically assign an evaluation/decision of the transactions submitted. These decision tools are complemented by a behavioural scoring model, a device that allows a greater predictability of the assumed risks and is used both in the pre-sale and in the sale period.

Credit risk parameters

The evaluation of a customer and/or operation, through rating or scoring, is an assessment of credit capacity, which is quantified through the probability of default (“PD”). In addition to the evaluation of the customer, the quantitative risk analysis considers other features such as the period of the operation, the type of product and the existing guarantees. As such, what is taken into account is not just the probability that the customer may not comply with his contractual obligations (PD), but also the exposure at default (“EAD”) as well as the percentage EAD that may not be recovered (loss given default or “LGD”).

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or that of the unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), and this cost duly included in the price of the operations.

The estimate of the unexpected loss, which is the basis for establishing the regulatory capital in line with standards comprised in the Basel (BIS II) capital agreement, is related to a very high and thus improbable loss level which, considering its nature, is not accepted as recurrent and must thus be covered by the equity.

In small and medium sized enterprises, the information obtained from their accounts is used not just to record a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into delay, and correlating these with the scoring attributed to the transactions. Excepted are the portfolios in which, due to lesser internal default

experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or assessments made by agencies with recognised experience and skill, with a portfolio containing a sufficient number of bodies (these portfolios are known as low default portfolio).

LGD estimates are based on the observation of the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the moment when the same are produced and the indirect expenses that derive from the recovery activity.

EAD estimation is based upon the comparison of the use of the committed lines at the time of default with a normal situation, in order to identify the real consumption of the lines at the time of default.

The estimated parameters are immediately ascribed to operations that are normally under way and will be differentiated between low default portfolios and the remainder.

Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred in BST's operations.

This process commences in the business areas, which propose a given tendency to risk: These risks are analysed and decided by specific committees, which act with powers delegated by the Executive Committee on the Higher Credit Council ("CSC"). The CSC establishes risk policies and procedures and the limits and delegation of powers.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic process that identifies the risk profile that BST is prepared to assume through the assessment of the business proposals and the Risks area recommendation.

Regarding large corporate groups, a pre-classification model is used based upon a system that evaluates economic capital.

With respect to non-standardised risks, the most basic level is that of the customer. When certain features coincide an individual limit is attributed, usually designated as pre-classification, through a more simplified system and usually for clients that comply with certain criteria (good knowledge of the client's business, rating, etc.).

With respect to standardised risks, the process of planning and establishing limits is carried out through a joint preparation, by the Risks and Business areas, of credit management programmes (CMP) where the results of the business in terms of risk and profitability are considered, as well as the limits to which the activity and associated risk management must be subject.

Risk assessment, decision on operations, follow up and control

Risk assessment is a prerequisite to the authorisation of any transaction in BST. This assessment consists of analysing the customer's capacity to comply with the contractual commitments assumed with BST, which implies analysing the customer's credit qualities, its credit transactions, its solvency and its profitability. Additionally, an assessment and revision of the rating is also carried out whenever an alert or event appears that may affect the customer and/or the operation.

The decision process on operations is intended to analyse these and to take the respective decision, considering the risk profile and the relevant components of the operation in determining a balance between risk and profitability.

In order to maintain adequate control of the portfolio's credit quality, in addition to the work developed by the internal auditors, a specific follow up function, made up by teams and responsible officers, is established within the Risks area, carried out by specific teams. This function is also divided in line with customer segmentation and is fundamentally based upon a continuous observation process that allows the prior detection of incidences that may occur in the evolution of the risk, of the operations and of the customer, with the objective to previously carry out the actions intended to mitigate such incidences.

Recoveries

Recoveries management in BST is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are the following:

- ensure the collection or regulation of the payments in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated position not be possible, the Recoveries area will then endeavour to process recovery through the courts; and
- maintain and strengthen the relationship with the customer helping it to abide by the commitments contractually assumed with BST.

Recoveries activity is structured in line with customers' commercial segmentation: Private, Business and Companies, with specific management models. The thus segmented recoveries management also respects the distinct management levels: preventive management, management of irregular situations and management of defaults and bankruptcies. All this activity is shared with the business areas.

Counterparty risk

The counterparty risk, which exists in all contracts carried out in financial markets either organised or over the counter ("OTC"), refers to the possibility of non-performance by the counterparties under the contracted terms and subsequent occurrence of financial losses for the institution.

Types of transactions comprised include the purchase and sale of securities, interbank money market transactions, “repos”, security loans and derivative instruments.

Control of such risks is carried out through an integrated system that allows for the recording of the approved limits and provides information on their availability for different products and maturities. The same system also allows the control of risk concentration for certain groups of customers or counterparties.

Risk in derivative positions, known as Credit Risk Equivalent (“**REC**”), is the sum of the present value of each contract (or current replacement cost) with the corresponding potential risk, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying market factors volatilities and the contracted flow structure.

Market risks

Activities subject to market risk

The segment of measurement, control and follow up of financial risks comprises the transactions where risks derive from the variation in market factors such as the interest rate, exchange rate, variable income and their respective volatilities as well as the solvency risk and the liquidity risk of the various products and markets in which BST operates (banking activity).

As a function of the risk objectives, activities are segmented as follows:

- **Negotiation:** This heading includes the activity of financial service rendered to customers;
- **Balance Sheet Management:** Interest rate and liquidity risk arise as a result of the timing differentials existing in maturities and re-pricing of assets and liabilities. Additionally, the active management of the credit risk inherent to BST’s accounts;
- **Negotiation activity.** The methodology applied, within BST, for the negotiation activity, is the Value at Risk (“**VaR**”). Used as a basis is the methodology of Historic Simulation with a 99 per cent. level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.
- **Stress testing,** consisting in the definition of behavioural scenarios of different financial variables in order to obtain the respective impact on results when applying these to the portfolios, is used as a complement to VaR. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk under extreme market conditions and on the fringes of occurrence probabilities not covered by VaR. Several sensibility measures (BPV and Greeks) and equivalent volumes are also estimated. In parallel, a daily monitoring of positions takes place, by carrying out an exhaustive control of the changes that occur in the

portfolios, aiming to detect changes in profile or possible incidences for their correction. The daily preparation of the profit and loss account is a risk indicator, in the measure that it allows us to identify the impact of variations on financial variables or the changes in the make up of the portfolios.

Calibrations and contrast measure (Back-testing)

The reliability of the VaR model is periodically checked through back testing analysis. Back testing is a comparative analysis between the Value at Risk estimates and the daily “clean” trial balances (clean P&L - result related to the reassessment of the closing portfolios of the previous day at the closing prices of the following day), where the spot/sporadic variances of the recorded results compared to the estimated measures are analysed.

The back testing analyses carried out in BST comply with the BIS recommendations, as regards the comparison of the internal systems used in the measurement and management of financial risks. Additionally, back-testing includes hypothetical tests: excess tests, normality tests, measures of average excess, etc.

Limits

Quantitative limits for negotiation portfolios, which are classified in two groups, are established in line with the following goals:

- limits intended to protect the volume of potential future losses. Instances of such limits are VaR limits, over sensibility measures (BPV or Greeks) or over equivalent positions;
- limits intended to protect/accommodate the volume of effective losses or to protect levels of results already achieved during the period. These types of limits aim to generate alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the limit of maximum loss is reached (stop loss), from which point it will be considered that losses will have reached unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR throughout the year

In 31 December 2015 and 2014, Value at Risk (VaR) associated with interest rate risk corresponded to:

	2015	2014
VaR Percentil 99%	(4)	(1)
VaR Weighted Percentil 99%	(25)	(1)

Balance Sheet Risk

Control of balance sheet risk

The control of the balance sheet risk covers the risk deriving from changes in interest and foreign exchange rates, as well as the liquidity risk, resulting from maturity lags and appreciation of assets and liabilities. The measurement and control of the balance sheet risk are ensured by a body which is independent from the management.

Methodologies

The interest rate risk in the consolidated accounts is measured through the modelling of the items in assets and liabilities sensitive to interest rate variations in line with their indexing and re-appreciation structure. This model allows the measuring and control of the risks originating directly from the movement of the income curve, namely their impact on net interest income and on the Bank's equity.

As a complement, other risk indicators are estimated based on the equity, such as VaR and the stress test.

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by carrying out stress test exercises which endeavour to identify the potential risk on external market conditions. In parallel, ratios are estimated on the current items in the accounts that are indicators of structural and short term liquidity requirements.

The control of the balance sheet risks is guaranteed through the application of a structure of quantitative limits which aim to keep exposures within the authorised levels. Limits are focused on the following indicators:

- Interest rate: sensitivity of net interest income and of the equity;
- Liquidity: stress scenarios and short term and structural liquidity ratios.

Structural balance sheet risk management

Interest rate risk

The interest rate risk in the consolidated accounts is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variations of risk factors and BST's positions over assets and liabilities sensitive to interest rate variations. The model in use allows the measuring and control of all the risks associated to the balance sheet's market risk, namely the risk originating directly from the movement of the income curve, given the structure of the indexing factors and existing re-appreciation, which determine the exposure to interest rate risk of the balance sheet components.

In 2015, the policy followed was to keep sensitivity at the levels considered as adequate.

Exchange rate risk

The exchange rate risk policy followed by the Group is based upon a low liquidity risk and on the continuous diversification of sources of finance, bringing into perspective the volume and nature of financial tools, to be used to allow the attainment and the best development of the established business plan.

Liquidity risk

By keeping to a conservative profile, we are better protected with respect to potential crises that may affect the environment.

The policy of a financing mix is always based on an adequate level of liquidity risk, in line with the established limits and will be assessed monthly by ALCO. The limits of liquidity risks are established by an independent management body which, apart from other indicators, demands a reasonable amount of available liquid assets.

Liquidity management is carried out at the consolidated level. The Group's financial policy takes into consideration the variations of the balance sheet components, the structural situations of the maturities of assets and liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimisation of expenditure related to the funding activity.

The structural liquidity situation is balanced and the capital market operated regularly in 2015. In October 2015 Banco Santander Totta issued a EUR 750 million covered bond which was placed on the market in total.

Operational risk

Definition and objectives

BST defines operational risk as “the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances”. It distinguishes it from other types of risks, since it is not associated to products or business, but is present in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as third party activities natural catastrophes.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. For this reason employees are responsible to manage and control operational risks generated in their areas of activity.

The objective in the case of control and management of operational risk is focused on the identification, measurement, assessment, control and mitigation and information concerning that risk.

The priority of BST is thus to identify and mitigate risk sources, independently from these having, or not, resulted in losses. Measurement may also contribute towards establishing priorities in the management of operational risk.

In order to calculate the requirements of own funds to cover operational risks, the Group opted, in a first stage for the standard method foreseen in the BIS II regulations.

Management model

The organisational management and control model results from the adaptation of the Group's approach to Basel II. Supervision and control of operational risk is practised through its governing bodies. As such, the Board of Directors and the Executive Committee periodically include in their agendas the treatment of relevant features in the management and mitigation of operational risk.

The management and control of operational risk is the responsibility of all BST's areas, since these have the better knowledge of the processes, as well as of those items that are susceptible to cause relevant exposures to operational risk, and are accompanied by a central area, responsible for the implementation and follow up of the project through control and supervision.

The different stages of the management model allow:

- to identify the operational risk inherent to all BST's activities, products, processes and systems;
- to define the objective profile of the operational risk by specifying unit strategies and time frame, through establishing the operational risk appetite and tolerance of the budget and its follow-up;
- to promote the involvement of all employees with the culture of operational risk adequate to all environments and organisational levels;
- to measure and assess the operational risk objectively, continually and coherently with the Basel II standards, define objectives and analyse the risk profile in line the respective limits;
- to continuously follow up exposures to operational risk with the objective to detect risk levels that have not been assumed;
- to establish mitigation measures which extinguish or minimise operational risk;
- to prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies.

The control model of the operational risk that was implemented has the following advantages:

- promotes the development of an operational risk culture;
- allows a comprehensive and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information);

- improves the knowledge of both real and potential operational risks and their being attributed to business and support lines;
- information on operational risk contributes towards improving processes and controls, reducing losses and revenue volatility;
- eases establishing operational risk appetite limits.

To carry out the identification, measurement and assessment of operational risk, a set of quantitative and qualitative techniques/tools were defined, which combine to obtain a diagnosis based on the identified risks and an evaluation through the measurement/assessment of each area.

The quantitative analysis is fundamentally carried out via the tools that record and quantify the potential loss levels associated to operational risk events, namely:

- Internal data base, whose objective is to capture all operational risk events that may or not have impacts on the accounts. There are procedures of accounting reconciliation that guarantee the quality of information contained in the data base;
- External data base, which provides quantitative and qualitative information allowing a more detailed and structured analysis of relevant events occurred in the industry;
- Analysis of scenarios where opinions are obtained from the various lines of business, risks and control managers, with the objective to identify potential low probability events which could imply heavy losses to the institution. The possible impact is assessed and additional mitigation controls and/or measures identified which could reduce a possible heavy impact on the institution.

Qualitative analysis allows assessing aspects linked to the risk profile. Tools used are, fundamentally:

- Self-assessment of operational risk, with the main objective to identify and assess the operational risks with regard to existing controls and to identify mitigating measures should the risk levels not be acceptable;
- Indicators, which are statistics or parameters providing information on risk exposure. The indicators and respective limits are periodically reviewed, in order to be adjusted to reality; and
- Recommendations arising from auditors or regulators provide relevant information concerning risk, thus allowing identification of weaknesses and controls.

Compliance and Reputational Risk

Reputational risk is understood to be the probability of occurrence of negative financial impacts for the institution affecting the results or even its share capital, resulting from an unfavourable

perception of its public image, whether proven or not, from customers, suppliers, analysts, employees, investors, media and any other bodies with which the institution may be related, or even by public opinion in general.

The reputational risk policy targets management, as defined in the above paragraph, determining the devices and procedures that allow BST: (i) to minimise the probability that reputational risk materialises; (ii) to identify, report to the Board and overcome the situations that may have arisen; (iii) to ensure follow up and control; and (iv) to provide evidence, if necessary, that BST has reputation risk amongst its main concerns and has available the organisation and means required for its prevention and, should it be the case, the ability to overcome it.

Without prejudice to all the remaining features that derive from the above, the global policy with respect to reputational risk covers, specifically and among others, the tools identified below that are referred due to their particular impact in the prevention and management of the risk:

- corporate values;
- compliance policy;
- prevention of money laundering and of financing terrorism;
- department codes;
- marketing policies and product follow up;
- financial risks policy;
- quality policy; and
- social responsibility and environmental defence policies.

Organisational Structure

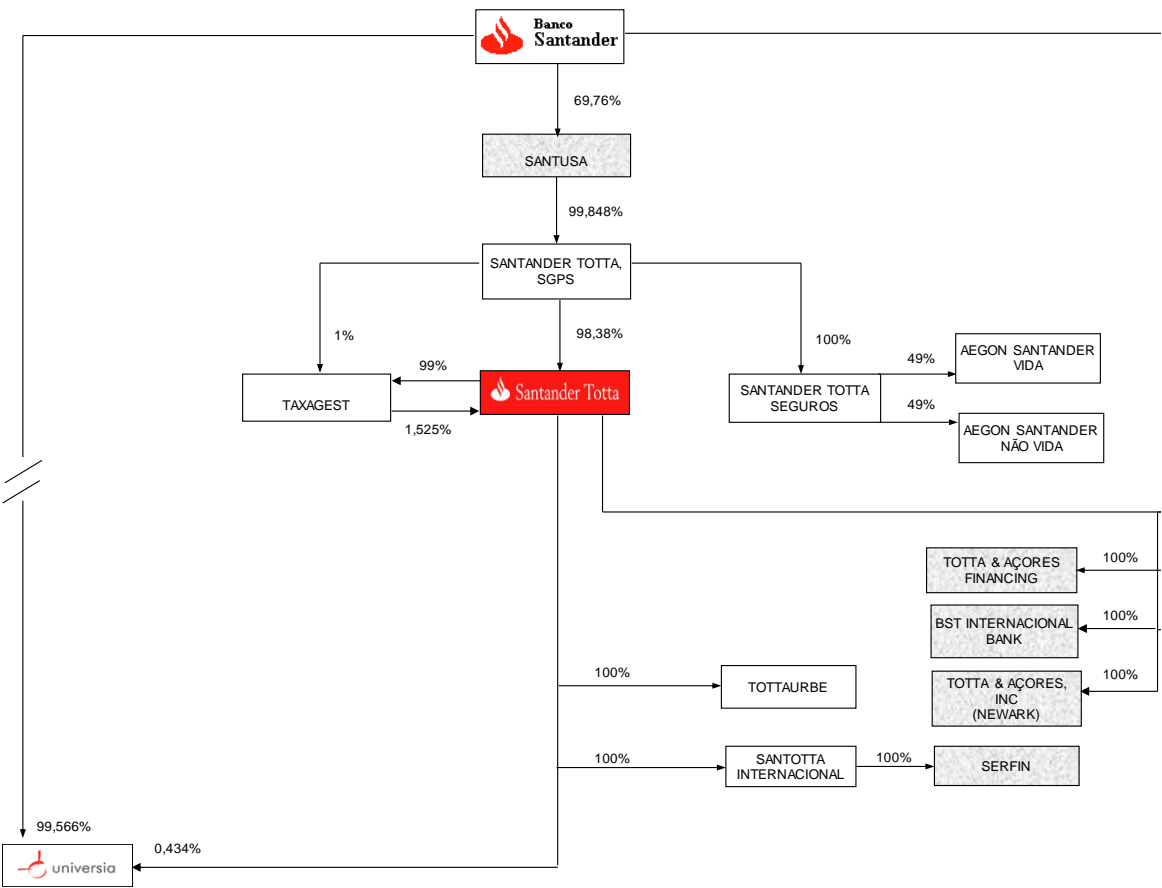
BST Group

The BST Group is a global financial group focusing its operation on two main business areas: commercial retail banking and investment banking. The BST Group provides a full range of products and services to individuals, companies and institutional investors in Portugal. In addition, following the incorporation of BSN and Totta – Crédito Especializado, Instituição Financeira de Crédito, S.A. by the Issuer, the BST Group comprises the investment bank networks of the Issuer and the related group of operating companies which are controlled by Santander Totta, SGPS, S.A.

The holding company in Portugal, Santander Totta, SGPS, S.A., separates the activities of the participating companies and the investment bank business from the activities of the Issuer. The aim of this corporate structuring, whereby all the banks and operating companies of the BST Group are controlled by Santander Totta, SGPS, S.A., is essentially to increase the BST Group's strength and

solvency, as well as to provide transparency to the market and allow for adequate supervision on a consolidated basis.

The diagram on the next page shows the structure of the BST Group as at the date of this Base Prospectus.



History of BST

Following an agreement entered into on 7 April 2000 between Banco Santander Central Hispano (“**BSCH**”), Mr. António Champalimaud (the former controlling shareholder of Banco Totta & Açores (“**BTA**”) and Caixa Geral de Depósitos S. A., the Issuer acquired a controlling interest of 94.68 per cent in BTA and 70.66 per cent in Crédito Predial Português (“**CPP**”). In June 2000, through its associate Santusa Holding, S.L (“**Santusa, BSCH**”) made a public acquisition offer for all of the outstanding shares of BTA and CPP. In December 2000, following a capital increase of BTA and the restructuring of the investments of the BST Group in Portugal, BTA became the head of the BTA Group, which, in addition to CPP, comprised Banco Santander Portugal (“**BSP**”) and BSN. The first complete year under the BST Group structure was 2001.

The Issuer was established following a corporate restructuring process completed in December 2004, which merged the commercial banks within the BST Group in Portugal (being BTA, CPP and BSP) into a single legal entity. The outcome was a holding company (Santander Totta), holding the commercial bank the Issuer and the investment bank BSN. The restructuring process was approved by the Bank of Portugal and at the Shareholders’ General Meetings of BTA, CPP and BSP on 15 October 2004, with the granting and filing of the deed completed on 19 December 2004.

The restructuring was an internal reorganisation of the BST Group in Portugal and resulted in BTA transferring, by operation of the merger, all of its assets into the Issuer, which assumed all the obligations of BTA by operation of law.

In May 2010, BSN was incorporated into the Issuer following a merger process that was initiated in 2009 and as a result the share capital of the Issuer increased from EUR 589,810,510.00 to EUR 620,104,983.00. In August 2010 the Issuer announced its intention to carry out a merger with Totta – Crédito Especializado, Instituição Financeira de Crédito, S.A., thus concentrating in the Issuer all lending activity currently developed by the merging entities. A preliminary project of the acquisition of the shares and the alluded merger was presented to the Bank of Portugal in the terms set forth in the law.

In this context, and following a shareholders resolution, on 18 March 2011 the Issuer announced the decision to raise its share capital to EUR 656,723,284.00, by means of contributions in kind (“*entradas em espécie*”), which would be performed by Santander Totta, SGPS, S.A. through the transfer of 5,750,322 shares representing the share capital of Totta – Crédito Especializado, Instituição Financeira de Crédito, S.A. to which it attributed the global value of EUR 66,304,973.91. To complete this transaction, 36,618,301 new shares representing the share capital of the Issuer, with the nominal amount of €1 each and with an issue premium per share of EUR 0.8107059066, corresponding to the relevant share capital increase, were issued. In addition, the holders of the notes issued by the Issuer, having met to decide about the aforementioned merger, decided not to oppose such merger on 21 March 2011. The filing of the share capital increase with the Commercial Registry Office occurred on 24 March 2011 and the completion of the merger in the terms described above took place on 1 April 2011.

On 20 December 2015, following the resolution measure applied to Banif by the Bank of Portugal, BST acquired a set of rights and obligations, comprised of assets, liabilities, off balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect, for the amount of EUR 150 million.

On 8 January 2016 and 28 March 2016, BST registered with the competent commercial registry its share capital increased by EUR 300,000,000 on each such date, from EUR 656,723,284.00 to EUR 956,723,284.00 and from EUR 956,723,284.00 to EUR 1,256,723,284.00, respectively, through the issue of ordinary book-entry and nominative shares with the nominal amount of EUR 1 each. These share capital increases were reserved to BST's shareholders and resulted in a total increase of BST's share capital to EUR 1,256,723,284.00.

The Issuer is the parent company to various subsidiaries and its financial results are affected by the cashflows and dividends from its subsidiaries.

As at 31 December 2015, the majority shareholders of the Issuer were:

Shareholder	Quantity of shares	Equity (per cent.)
Santander Totta, SGPS, S.A.	941,226,328	Approx. 98.38
Taxagest	14,593,315	Approx. 1.53

Banco Santander, S.A. holds directly or indirectly approximately 99.38 per cent. of Santander Totta SGPS, S.A.. Both the shareholders of BST – Santander Totta, SGPS, S.A. and TaxaGest SGPS, S.A. (two holdings comprised in the BST Group) – are indirectly fully owned by Banco Santander, S.A. and therefore, BST is indirectly owned by Banco Santander, S.A.

There are no specific mechanisms in place to ensure that control over the Issuer is not abusively exercised. Risk of abusive control is in any case mitigated by the existence of an Audit Board and an Auditor, as described herein, in the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2014 and the legal and regulatory provisions and the supervision of the Issuer by the CMVM and the Bank of Portugal.

The Issuer, being (i) a credit institution and (ii) a financial intermediary (i.e. an entity which provides investment services/activities and ancillary services) and an issuer of securities admitted to trading on a Portuguese regulated market, is subject to the supervision of respectively (i) the Bank of Portugal and (ii) the CMVM, which, among other regulatory areas, supervise the acquisition and disposition of substantial holdings in the Issuer.

The Issuer is managed by a Board of Directors (*Conselho de Administração*) elected at the General Shareholders' Meeting for a three-year period and each of its members is bound by duties of care

and loyalty in order to optimise the interests of all relevant stakeholders (in accordance with the Commercial Companies Code – Article 64 – and the Credit Institutions General Regime – Article 75). The business address for each of the members of the Management and Statutory Bodies is Banco Santander Totta, S.A., Rua Áurea, no. 88, 1100-063 Lisbon, Portugal.

Management and Statutory Bodies

The management and statutory bodies listed below were elected for the years 2013/2015 and their replacement in functions for the following mandate, as set out below, is subject to the authorisation or non-opposition of the competent supervisory authorities as explained below.

General Meeting

Chairman	José Manuel Galvão Teles
Vice – Chairman	António Maria Pinto Leite
Secretary	Luís Manuel Baptista Figueiredo

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Vice-Chairman	António José Sacadura Vieira Monteiro
Vice-Chairman	Enrique Garcia Candelas
Members	Carlos Manuel Amaral de Pinho
	João Baptista Leite
	José Carlos Brito Sítima
	José Manuel Alves Elias da Costa
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota³

Audit Board

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Mazars & Associados, S.R.O.C., represented by Fernando Vieira Ricardo Manuel Duarte Vidal Castro
Alternative Member	Pedro Manuel Alves Ferreira Guerra

Statutory Auditor and Auditor

Deloitte & Associados, S.R.O.C., S.A.

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	José Carlos Brito Sítima João Baptista Leite José Manuel Alves Elias da Costa José Urgel Moura Leite Maia Luís Filipe Ferreira Bento dos Santos Pedro Aires Coruche Castro e Almeida Manuel António Amaral Franco Preto

Company Secretary

Effective	Luís Manuel Baptista Figueiredo
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³ Elected on the general meeting that took place on 29 May 2015 and started to exercise the functions of board member on 6 July 2015.

Alternate Raquel João Branquinho Nunes Garcia

On 31 May 2016, the annual meeting of the shareholders of BST took place and approved, *inter alia*, amendments to the by-laws of BST replacing the Audit Board by an Audit Committee (thus changing the corporate governance model from a Latin model to an Anglo-Saxon one) and the following composition of the management and statutory bodies, including the members of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor and Auditor of the Bank, for the years 2016/2018. The beginning of exercise of functions of the management and audit bodies, as well as of the auditor is subject to the authorisation or non-opposition of the competent supervisory authorities:

General Meeting

Chairman	José Manuel Galvão Teles
Vice – Chairman	António Maria Pinto Leite
Secretary	João Gomes da Silva

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Vice-Chairman	António José Sacadura Vieira Monteiro
Vice-Chairman	Enrique Garcia Candelas
Members	Angel Riviera Congosto
	António Manuel de Carvalho Ferreira Vitorino
	Inês Oom Ferreira de Sousa
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Luis Manuel Moreira de Campos e Cunha
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Remedios Ruiz Macia

Audit Committee

Chairman Luís Manuel Moreira de Campos e Cunha

Members António Basagoiti Garcia-Tuñón

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Statutory Auditor and Auditor

PricewaterhouseCoopers & Associados, Sociedade de Revisores
Oficiais de Contas, Lda.

Main activities of directors outside of BST

Name	Company	Office held
António Basagoiti Garcia-Tuñon	Santander Totta, SGPS, S.A.	Chairman of the Board of Directors
António José Sacadura Vieira Monteiro	Santander Totta, SGPS, S.A.	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the Board of Directors and of the Executive Committee (1)
	Faculty of Humanistic and Social Sciences of Nova University	Member of the General Council
	Luso-Spanish Chamber of Commerce	Deputy Chairman
	COTEC - Portugal	Member of the General Council
	Vieira Monteiro, Lda.	Manager
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee (2)
José Manuel Alves Elias da Costa	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Santander Totta Seguros – Companhia de Seguros de Vida, SA	Chairman of the Board of Directors
José Carlos Brito Sítima	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the General Meeting
Luís Filipe Ferreira Bento dos Santos	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
Manuel António Amaral Franco Preto	Banco Santander Consumer Portugal, S.A.	Member of the Audit Board
	Serfin International Bank & Trust	Director
	Taxagest – Sociedade Gestora de Participações Sociais, S.A.	Chairman of the Board of Directors (1)
	Santotta – International, SGPS, Sociedade Unipessoal, Lda	Manager
	Totta & Açores Financing, Ltd.	Director
João Baptista Leite	Totta Ireland, Plc	Director
	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
	SIBS – Forward Payment Solutions, S.A.	Member of the Board of Directors
Pedro Aires Coruche Castro e Almeida	SIBS, SGPS, S.A.	Member of the Board of Directors
	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors (3)
Luís Manuel Moreira de Campos e Cunha	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
	Santander Totta, SGPS, S.A.	Chairman of the Audit Board
Ricardo Manuel Duarte Vidal de Castro	Galp Energia, SGPS, S.A.	Chairman of the Board of Directors (4)
	Santander Totta, SGPS, S.A.	Member of the Audit Board
Pedro Manuel Alves Ferreira Guerra	Clube do Autor, S.A.	Director
	Santander Totta, SGPS, S.A.	Alternate Member of the Audit Board

(1) On 17/04/15 became the Chairman of the Board of Directors

(2) Ceased duties on 31/08/15

(3) Ceased duties on 17/12/15

(4) Ceased duties on 16/04/15

Employees

Certain terms and conditions of employment in the banking sector in Portugal are negotiated with trade unions and wage negotiations occur on an industry-wide basis. The Issuer has not experienced any material labour problems and it believes that its relations with its employees are generally satisfactory. The major objectives of the BST Group's staff management programme are directed at creating and improving team spirit through, among other measures, recruitment, a training plan and early retirement schemes.

Material Contracts

As at the date of this Base Prospectus, there are no material contracts that are reasonably likely to have a material effect on the Base Prospectus.

Conflicts of Interest

There are no potential conflicts of interest between any duties to the Issuer by any of the members of either the Board of Directors, the Executive Committee or the Audit Board in respect of their private or other duties.

Recent Developments

On 20 December 2015, following the resolution measure applied to Banif by the Bank of Portugal, BST acquired a set of rights and obligations, comprised of assets, liabilities, off balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect, for the amount of EUR 150 million.

On 5 January 2016 and 22 March 2016, BST disclosed that its share capital increased by EUR 300,000,000 on each such date, from EUR 656,723,284.00 to EUR 956,723,284.00 and from EUR 956,723,284.00 to EUR 1,256,723,284.00, respectively, through the issue of ordinary book-entry and nominative shares with the nominal amount of EUR 1 each. These share capital increases were reserved to BST's shareholders and resulted in a total increase of BST's share capital to EUR 1,256,723,284.00.

On 11 January 2016, BST informed the market that Moody's rating agency increased from Baa2 to A1 the rating of the following covered bonds, originally issued by Banif under its covered bonds programme and transferred, pursuant to the provisions of the law and the resolution measure applied on 20 December 2015 by the Bank of Portugal, to BST: (i) PTBAFDOM0031, €100,000,000 FLOATING RATE COVERED BONDS DUE JANUARY 2017; (ii) PTBAFFOM0013 €135,000,000 FLOATING RATE COVERED BONDS DUE JULY 2017 and (iii) PTBAFSOM0026 €50,000,000 FLOATING RATE COVERED BONDS DUE OCTOBER 2017.

On 13 January, BST informed the market that following the resolution measure applied to Banif, the role of paying agent assumed by Banif under the senior bonds (unsubordinated), which ISIN codes are listed above, has, pursuant to the provisions of the law and the alluded resolution

measure, been transferred to BST: Issue of Senior Bonds by Banif Fixed Rate EUR 2013/2016 (ISIN: PTBAFCOE0024); Issue of Senior Bonds by Banif Fixed Rate EUR 2013/2016 (ISIN: PTBAFJOE0035); and Issue of Senior Bonds by Banif Fixed Rate USD 2015/2018 (ISIN: PTBAFTOM0025).

On 14 January 2016, BST informed the market that Fitch increased the ratings of the following covered bonds from BBB+ to A- with a positive outlook: PTBTAJOE0013- COVERED BONDS DUE 2016 – SÉRIE 9-T 2; PTBTCKOE0018-COVERED BONDS DUE 2016 – SÉRIE 10; PTBSQBOE0022 - COVERED BONDS DUE 2016 – SÉRIE 11– T 1; PTBSQAOE0023 - COVERED BONDS DUE 2016 – SÉRIE 11– T 2; PTBSQCOE0021 - COVERED BONDS DUE 2016 – SÉRIE 11– T 3; PTBSQDOE0020 - COVERED BONDS DUE 2017 – SÉRIE 12; PTBSQEOE0029 - COVERED BONDS DUE 2019 – SÉRIE 13; PTBSRAOE0022 - COVERED BONDS DUE 2022 – SÉRIE 14; and PTBSRBOE0021 - COVERED BONDS DUE 2020 – SÉRIE 15.

On 20 January 2016, BST informed the market that on 27 January it would proceed with the early redemption of the following covered bonds issued by Banif: PTBAFDOM0031; PTBAFFOM0013 and PTBAFSOM0026.

On 10 March 2016, Fitch reaffirmed the rating assigned to the covered bonds issued by BST of A- and the corresponding outlook was revised to stable from positive.

On 13 May 2016, BST informed the market on the rating decision of Fitch rating agency, which kept the long and short term debt rating of BST and Santander Totta SGPS, S.A. in BBB and F2, respectively, with a stable outlook.

On 31 May 2016, the annual meeting of shareholders of BST discussed and resolved, *inter alia*, on the composition of the management and statutory bodies, including the members of the General Meeting, the Board of Directors, the Audit Board and the Statutory Auditor and Auditor of the Bank. In particular, it was resolved on the election of new members for the Board of Directors and the Audit Board and the replacement of the Statutory Auditor and Auditor of the Bank for a different accounting firm, for the years 2016/2018.

On 28 June 2016, BST informed the market that on 17 June 2016 it had entered into a share purchase agreement with Banif – Banco de Investimento, S.A. with respect to the shares representing the share capital of Gamma – Sociedade de Titularização de Créditos, S.A., a securitisation company registered with CMVM under number 9152, and relevant credits for equity contributions. Completion of this transaction is still dependent upon the fulfilment of the usual conditions in this kind of transactions, namely obtaining the necessary authorizations from the respective competent authorities.

THE PORTUGUESE MORTGAGE MARKET

As at 31 December 2015, the Portuguese residential mortgage market was valued at EUR 111,409,000,000 (as reported by the Bank of Portugal (in *Statistical Bulletin June 2016, tables B414 and B15*, available on the following link: <http://www.bportugal.pt/pt-pt/estatisticas/publicacoes/estatisticas/bolestatistico/paginas/boletimestatistico.aspx>). However, by March 2016⁴, this value had decreased to EUR 110,569,000,000, around 61 per cent. of GDP.

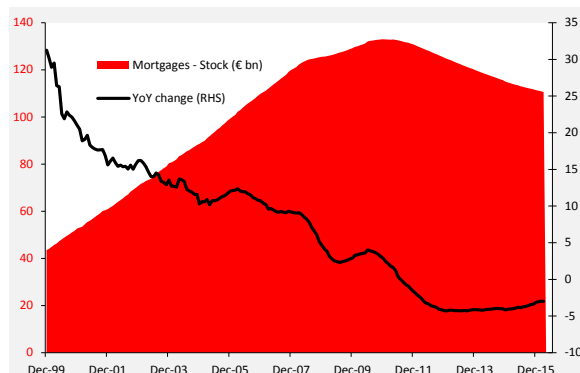
Following solid growth during most of the 2000s (with the number of new mortgages averaging 200,000 per year), the mortgage market has seen a substantial deceleration, as a reaction to the financial and economic crisis which started in mid-2008, and was followed by the Adjustment Programme signed with the international institutions, under which the banking sector was requested to deleverage, with a target of 120 per cent. for the loans-to-deposits ratio by the end of 2014.

New production for mortgages has fallen steadily during the adjustment process, reflecting both demand issues, such as the constraints on household incomes (due to flat or falling wages, higher taxes, lower social transfers to households and rising unemployment), and supply issues, with tighter credit conditions (both tighter criteria in credit concession and higher spreads), largely the result of an impaired access to the wholesale funding markets by the Portuguese banks. These effects are now subsiding, and in March 2016, new mortgage production was of EUR 491 million (an increase of 75 per cent. in year to year terms, to levels which are around the triple of the historical minima observed in February 2013).

The charts below, with data from the Bank of Portugal, show the trends in both the total stock of mortgage loans (adjusted for securitisations) and new production.

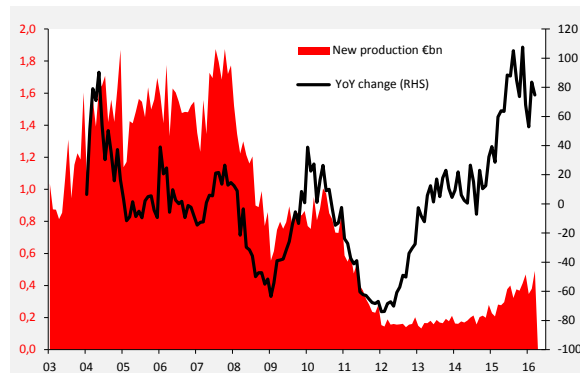
⁴ The analysis in this section, including the description and the charts, is based on the information and statistical data available from official sources (INE, Bank of Portugal, Confidencial Imobiliário and Bank of International Settlements (“BIS”), in their internet websites, as of 31 May 2016. The latest datapoint refers to the last available information, but no later than March 2016.

Mortgages (stock, €mn, and YoY change)



Source: Bank of Portugal

Mortgages (new production, €mn, and YoY change)



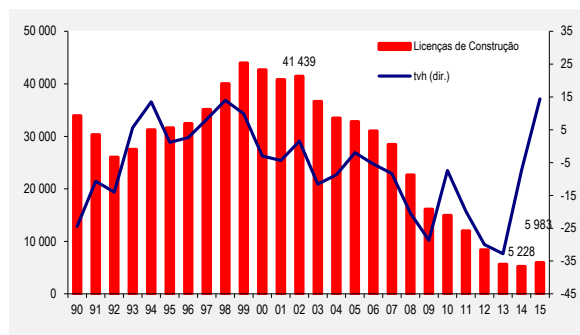
Source: Bank of Portugal

Historically, there has been a steady and balanced relationship between housing demand and supply. This has allowed for the increase in demand to be met by an increase in supply, thus enabling a stabilisation of Portuguese housing prices during most of the previous decade, in contrast with the position of certain other EU countries.

Since 2008, the decrease in demand has been accompanied by a decrease of supply, thus resulting in a situation where housing prices have shown a lesser volatility than in other countries which have also gone through an adjustment in their residential market, with a less pronounced decline of prices, even during the worst of the recession. Once again, this trend is in contrast with the position of other European countries, where, following the burst of the residential housing bubble, such prices have fallen steeply.

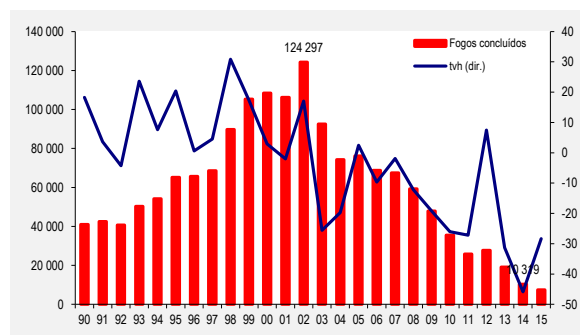
There was an average annual 20 per cent. drop in the residential building permits in the period from 2006 to 2014. In 2014, building permits fell to their lowest level, due to the significant decline in demand. In 2015, a slight recovery trend has begun, with permits rising 14%. Housing completions have followed the same trend, but failing to recover in 2015, with a steady decline since the peak in 2002, falling to around 7,300 houses in 2015.

Building permits



Source: INE

Housing Completions

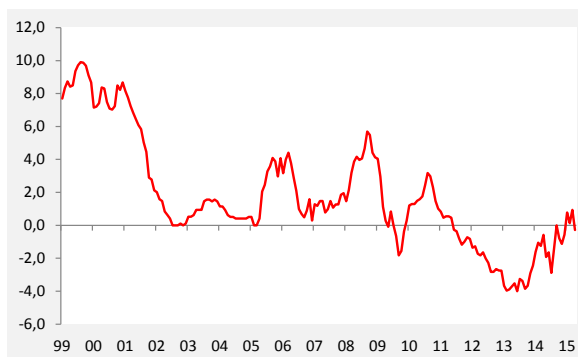


Source: INE

Since 2000, housing prices in Portugal have increased in line with the consumer price index (published by INE (in *Statistical year book of Portugal – 2013, table III.2.1 (Indicators of Prices)*)), that is to say, an increase of 2 to 3 per cent. per year.

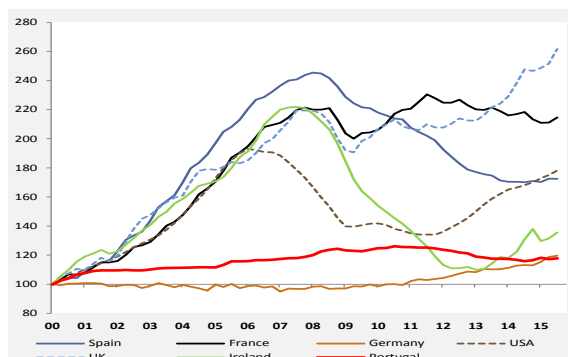
Portuguese housing prices have therefore experienced a relatively lower increase in comparison to that of other EU countries, such as Spain, Ireland and France. This lower volatility is reflected in the more moderate price developments since 2009, where Portuguese housing prices remained stable, in contrast with the majority of the developed world.

House prices (YoY, per cent.)



Source: Confidencial Imobiliário

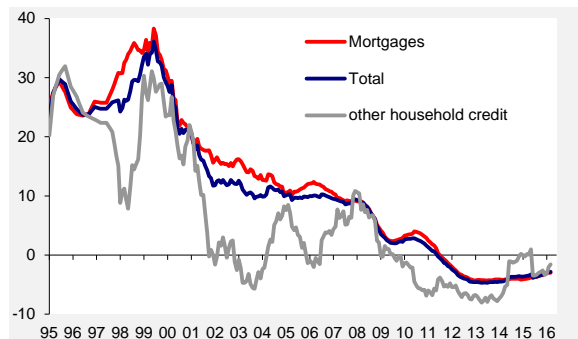
Residential property prices (Mar/2000=100)



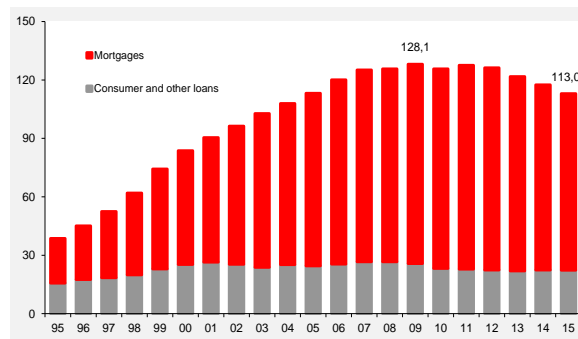
Source: BIS

Until 2008, the structural reduction in interest rates (since the introduction of the Euro) allowed for a continued growth in the demand for housing, which in turn supported the growth in the number of mortgages by up to 10 per cent. per year, in spite of a slowing economy. However, after late 2008, weak economic prospects and the rise in Euribor interest rates have resulted in a decreased demand for housing. Although interest rates declined, following the intervention by the ECB, reducing its key reference rates to close to zero, credit spreads have widened, reflecting the higher funding costs by the banking sector, with an impact on demand (also affected by the lower LTVs of new loans), which is insufficient to offset the natural decline of the stock, as households continue to provide for the loans.

In the recent years, the decline in interest rates in a context of deleveraging by households, has improved the ability of borrowers to service the debt. In 2015, household debt, as a share of disposable income, has fallen to 113 per cent., down from a peak of almost 130 per cent. in 2009. The debt service is now estimated at around 3 per cent. of disposable income, down from almost 10 per cent. in 2008. Around 75 per cent. of the monthly instalment is related to principal payment, while the remainder 25 per cent. is the debt service.

Credit to households (per cent., YoY)

Source: Bank of Portugal

Household indebtedness (per cent. disposable income)

Source: Bank of Portugal, INE

As marked in red on the chart on the left, the growth rate of mortgage loans has declined from an expansion of approximately ten per cent. (in 2006 and 2007) to a contraction of approximately three per cent. (in 2015).

In the period from 2010 to 2014, new lending fell by 80 per cent. (achieving a very limited production of EUR 1935 million in 2012, EUR 2049 million in 2013 and EUR 2313 million in 2014). A recovery has taken place in 2015, with new production increasing to EUR 4013 million (an increase of 73.5 per cent.).

This trend in mortgage activity, of moderate increase, is expected to be maintained, due to still gradual economic recovery, which continue to impact adversely household disposable income, and the deleverage process faced by Portuguese banks. Furthermore, while bank lending criteria have relaxed in recent months, they remain much tighter than before the crisis, especially at the level of maximum LTV of the loan, which results in less customers qualifying for new loans. Interest rates for new mortgages have increased between 2010 and 2012 (from 2.98 per cent. in December 2010 to 4.68 per cent. in January 2012), but have since been declining (to 2.05 per cent. in March 2016). Nevertheless, the spread *vis-à-vis* Euribor 6 months remains elevated, at 218 basis points in March 2016.

Mortgage growth is forecast to remain subdued, given prospects for both demand and supply. Despite the gradual reopening of wholesale market access for Portuguese banks, conditions in credit markets remain tight, and new capital rules imposed by the regulators also imply that banks will remain conservative in credit lending, with higher spreads and tighter credit requirements (lower LTV ratios) compared to the pre-crisis period.

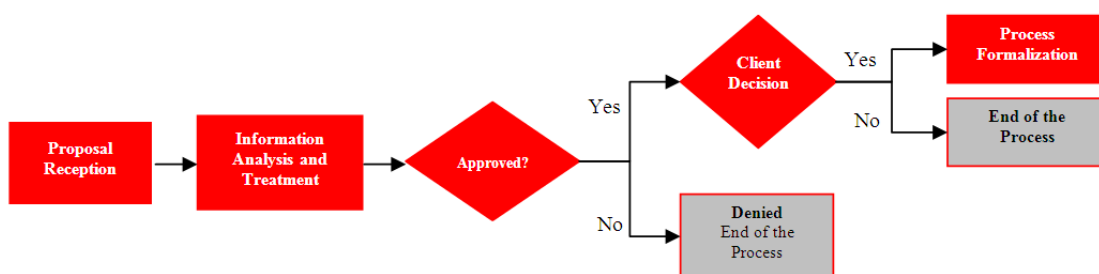
On the demand side, there are two main factors at play. On the one hand, demographics imply a gradually lower demand for housing. On the other hand, households will likely be much more conservative in their investment decisions, in view of higher spreads, forced savings in the context of social security reforms, and increased taxation on housing.

As such, in the coming quarters it is expectable that new production will continue to be insufficient to offset the natural redemption of loans, resulting in a steady decline in the stock of mortgages.

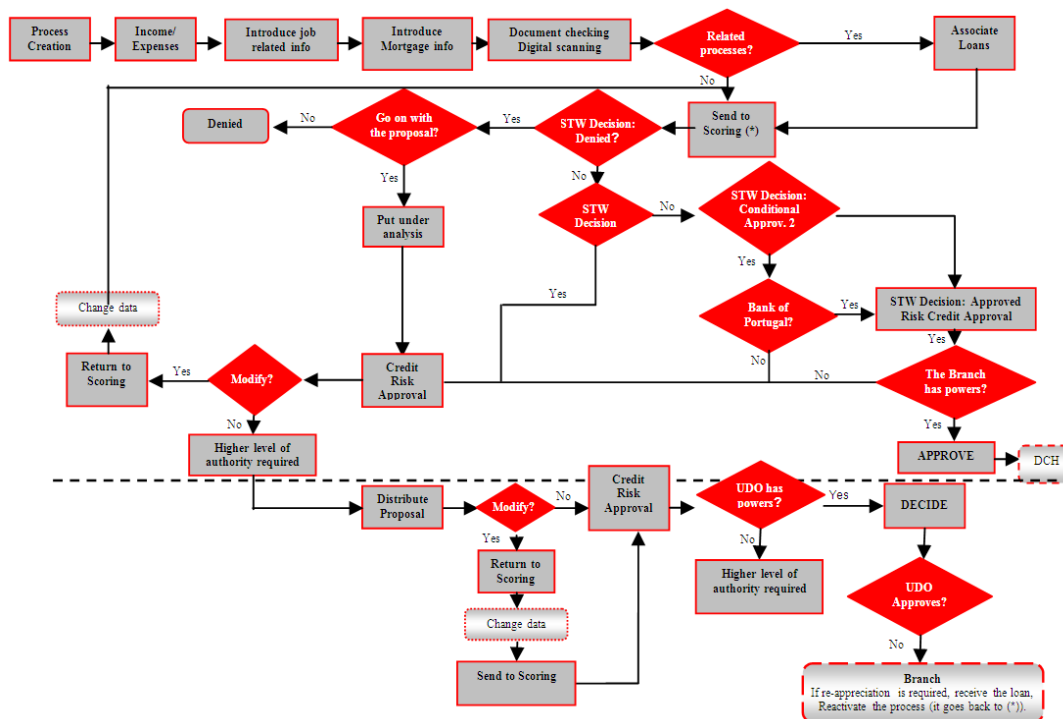
ISSUER'S STANDARD BUSINESS PRACTICES

The internal procedure for the approval of an application for a mortgage-backed loan involves: (i) the creation of an application by the relevant branch within the internal financial system; and (ii) the receipt of the relevant documentation (either the originals or authenticated copies) from the potential borrower. In respect of each mortgage-backed loan application, the transaction and customer in question are analysed by a risk analyst who will focus, among other things, on the loan application, the security to be given, the maturity of the loan, and the borrowing capacity, scoring and income of the potential borrower.

After an application has been accepted, the branch and customer begin the contractual process. This process may be summarised as follows:



On a broader scale, the full process may be summarised as follows:



Valuation

Valuations of mortgaged houses are randomly distributed to and carried out by valuation companies that work with the Issuer under an outsourcing scheme (which includes only national valuation companies certified by the CMVM) and subject to quotes that are defined from time to time by BST. The assessors of the valuation companies visit the houses in question and make the relevant assessment and valuations in accordance with applicable prospect values. Each of these valuation companies has a central department that validates each valuation that has been carried out. The results are subsequently uploaded on the internal website of BST. A group of independent engineers (that are hired by BST) monitor the quality of such valuations using appropriate valuation samples.

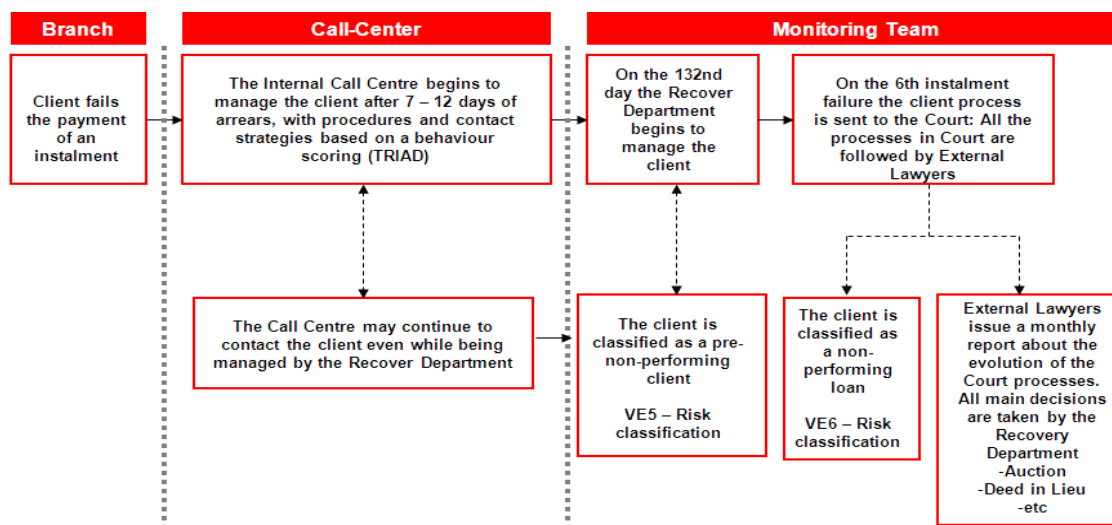
Monitoring process

The monitoring process is comprised of three stages: (i) the branch level; (ii) the call centre level; and (iii) the pre-non-performing loan level. These are applicable depending on the number of days by which the borrower is in default.

At the branch level, during the first seven to twelve days of arrears the relevant branch will contact the borrower in an informal way so as to arrange for the default to be remedied.

The call centre level takes on after seven to twelve days of arrears, contacting the borrower on a regular basis so as to reach an agreement. The call centre follows standardised procedures and all action taken is registered.

Credit recovery organisational model



USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (“**Bank of Portugal Regulatory Notices**”), which comprises both regulatory notices (*Avisos*) and instructions (*Instruções*). The Bank of Portugal Regulatory Notices address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds (*obrigações hipotecárias*) may be issued by credit institutions (“**Institutions**”) legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than €7,500,000. Institutions can either be universal credit institutions (“**Credit Institutions**”) or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (“**Mortgage Credit Institutions**”).

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting, acquiring and selling (i) credits guaranteed by mortgages and (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

If covered bonds are issued by a Mortgage Credit Institution backed by credits acquired from a third party originator, the cover assets must be transferred to the Mortgage Credit Institution and, if such Mortgage Credit Institution is wholly-owned by such originator, the assets and liabilities relating to the relevant issue of covered bonds and the related cover pool will be consolidated with such originator. However, it is also possible for a Mortgage Credit Institution to have multiple owners, in which case the issues of covered bonds and the allocated cover pool may or may not be consolidated with the originator of the relevant credits.

An Institution must manage its cover pool as well as any properties that it may acquire as a result of the enforcement of delinquent mortgage credits. Institutions may also obtain additional liquidity.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent

estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

- Pecuniary credit receivables of the Issuer which are not yet matured and which are neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by:
 - first ranking mortgages over residential or commercial real estate located in an EU Member State; or
 - junior mortgages but where all mortgage credits ranking senior thereto are held by the Issuer and are also allocated to the Cover Pool; or
 - a personal guarantee granted by a credit institution or an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.
- Other assets (up to 20 per cent. of the aggregate cover pool), such as:
 - deposits with the Bank of Portugal in cash, or securities eligible for credit transactions in the Eurosystem;
 - current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating of at least “A-” or equivalent (without prejudice to this legal requirement, the Issuer will only make current or term account deposits with credit institutions having a rating equal to or higher than the minimum rating defined for this purpose in the Terms and Conditions); and
 - other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

The geographical scope of eligible assets is restricted to credits guaranteed by first ranking mortgages on property located in the EU or loans granted to central governments and regional or local authorities located in an EU Member State.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulatory Notices contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

VALUATION AND LTV CRITERIA

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulatory Notice 5/2006, which establishes rules on the methods and frequency of the valuations of the properties).

The maximum Loan to Value for residential mortgages is 80 per cent. and 60 per cent. for commercial mortgages loans.

In accordance with article 2(1) of Regulatory Notice 5/2006, the value of each property securing a mortgage credit comprised in a cover pool corresponds to the commercial value of such property, determined in accordance with a prudent criteria and taking into consideration: (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of each such property.

Pursuant to the requirements of article 2(2) Regulatory Notice 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii) the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulatory Notice 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulatory Notices.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulatory Notices establish the following asset and liabilities matching requirements:

- the global nominal value of the outstanding mortgage covered bonds cannot exceed 95 per cent. of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool (i.e., a mandatory overcollateralisation of 5.2632 per cent.);
- the average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds;
- the total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any time, the amount of interest to be collected from the mortgage credits and other assets comprised in the corresponding cover pool – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds; and
- the net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and
- in relation to any other assets:
 - deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
 - securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of “A-” or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated “A-” or above. If a particular issue of covered bonds is denominated in a currency other than euro, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to Article 4.5 of the Covered Bonds Law, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege (*privilégio creditório*), in particular in case of winding-up and dissolution of the Institution.

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

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such project shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulatory Notice 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i)

immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

Preferential status for covered bonds holders

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all Series of covered bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

TAXATION

Portugal

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It does not take into account or discuss the tax laws of any country other than Portugal and relates only to the position of persons who are absolute beneficial owners of Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences resulting from the purchase, ownership and disposition of Covered Bonds, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or are deemed to be, residents. The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take into account any different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law.

1. Covered Bonds not held through a centralised control system

Individuals resident in Portugal

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to personal 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 it in his taxable income, subject to tax at progressive rates of up to 48 per cent. In the latter case, an additional income tax rate will be due on the part of the taxable income exceeding 80,000 as follows: (i) 2.5 per cent. on the part of the taxable income up to €250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000; Also if the option of income aggregation is made an additional surcharge rate will be due for the tax year of 2016 according to the taxpayer's taxable income, as follows: (i) 0 per cent. for taxable income up to €7,070; (ii) 1 per cent. for taxable income exceeding €7,070 up to €20,000; (iii) 1.75 per cent. for taxable income exceeding €20,000 up to €40,000; (iv) 3 per cent. for taxable income exceeding €40,000 up to €80,000; and (v) 3.5 per cent. for taxable income above €80,000. From 1 January 2017 onwards, it is foreseen that such additional surcharge will no longer be applicable. Accrued interest qualifies as interest, rather than as capital gains, for tax purposes.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a

final withholding tax at a rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

In the case of Zero Coupon Covered Bonds, the difference between the redemption value and the subscription cost is qualified as investment income and is also subject to Portuguese income tax.

Capital gains taxation of 28 per cent., applicable to Portuguese resident individuals, will apply on the positive difference between the capital gains and capital losses arising from the transfer of the Covered Bonds, unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. In the latter case, an additional income tax rate will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income up to €250,000, and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also if the option of income aggregation is made an additional surcharge rate will be due for the tax year of 2016 according to the taxpayer's taxable income, as follows: (i) 0 per cent. for taxable income up to €7,070; (ii) 1 per cent. for taxable income exceeding €7,070 up to €20,000; (iii) 1.75 per cent. for taxable income exceeding €20,000 up to €40,000; (iv) 3 per cent. for taxable income exceeding €40,000 up to €80,000; and (v) 3.5 per cent. for taxable income above €80,000. From 1 January 2017 onwards, it is foreseen that such additional surcharge will no longer be applicable. *Legal persons resident in Portugal and non-residents with a permanent establishment to which income derived from the Covered Bonds is attributable to*

Interest and capital gains derived from the Covered Bonds and capital gains and losses realised by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the interest or capital gains or losses are attributable to are included in their taxable income and are subject to corporate income tax rate at a rate of (i) 21 per cent. 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. for taxable profits up to €15,000 and 21 per cent. 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 a State surcharge (*derrama estadual*) of (i) 3 per cent. on the part of its taxable profits exceeding €1,500,000 up to €7,500,000, (ii) 5 per cent. on the part of the taxable profits that exceeds €7,500,000 up to €35,000,000, and (iii) 7 per cent. on the part of the taxable profits that exceeds €35,000,000.

Withholding tax on interest and other investment income at a rate of 25 per cent. applies, which is deemed a payment on account of the final tax due.

Portuguese financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and collective investment undertakings incorporated under the laws of Portugal and some exempt entities are not subject to withholding tax.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a

final withholding tax at a rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Non-resident individuals, and legal persons with no permanent establishment to which income derived from the Covered Bonds is attributable to

Notwithstanding the special debt securities tax regime as described below, the general tax regime on debt securities applicable to non resident entities is the following.

Interest and other types of investment income obtained by non resident beneficial owners (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable to are subject to withholding tax at a rate of 28 per cent. (in the case of individuals) or at a rate of 25 per cent. (in the case of legal persons), 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 above withholding tax rates 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 excess tax.

Interest and other investment income paid or made available (“*colocado à disposição*”) to accounts in the name of one or more accountholders acting on behalf of undisclosed entities are subject to a final withholding tax at a rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Withholding tax at a rate of 35 per cent. applies in case of investment income payments to individuals or companies domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by Ministerial Order (*Portaria*) no. 150/2004, of 13 February, amended by Ministerial Order (*Portaria*) no. 292/2011, of 8 November 2011 (the “**Ministerial Order**”).

Under domestic law, the responsibility to withhold taxes arising from interest payments of the Covered Bonds issued by resident entities for tax purposes belong to the registry or depository entity, as the case may be.

Capital gains obtained on the transfer of Covered Bonds by non-resident individuals without a permanent establishment in Portugal to which gains are attributable to are exempt from Portuguese capital gains taxation unless the individual is resident in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by the Ministerial Order. Capital gains obtained by individuals that are not entitled to said exemption will be subject to taxation at a 28 per cent. flat rate. Accrued interest does not qualify as capital gains for tax purposes. Under the tax treaties entered into by Portugal, Portugal is usually not allowed to tax such gains, but the applicable rules should be confirmed on a case by case basis.

Regarding capital gains obtained on the disposal of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable to are exempt from Portuguese capital gains taxation, unless the share capital of the non-resident entity is more than 25 per cent. directly or indirectly held by Portuguese resident entities or if the beneficial owner is resident in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by the Ministerial Order. This referred 25 per cent. threshold will not be applicable when the following cumulative requirements are met by the seller: (i) is an entity resident 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 the exchange of information; (ii) such entity is subject and not exempt to 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 regarding the entity subject to disposal for at least one year uninterruptly; and (iv) 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. Although the abovementioned cumulative requirements are in full force and effect since 31 March 2016 and apply to securities in general, the law is not clear on the application thereof so as for holders of debt representative securities to benefit from the relevant capital gains exemption, as some of the alluded requirements appear not to apply to debt representative securities.

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, Portugal is usually not allowed to tax such gains, but the applicable rules should be confirmed on a case by case basis.

Acquisition of Covered Bonds through gift or inheritance

Stamp tax at a rate of 10 per cent. applies to the acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse, de facto spouse, descendants and parents/grandparents.

The acquisition of Covered Bonds through gift or inheritance by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal is subject to corporate income tax rate at a rate of (i) 21 per cent. 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. for taxable profits up to €15,000 and 21 per cent. 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 a State surcharge (*derrama estadual*) of (i) 3 per cent. on the part of its taxable profits exceeding €1,500,000 up to €7,500,000, (ii) 5 per cent. on the part of the taxable profits that exceeds €7,500,000 up to €35,000,000, and (iii) 7 per cent. on the part of the taxable profits that exceeds €35,000,000.

No stamp tax applies to the acquisition through gift and inheritance of Covered Bonds by an individual who is not domiciled in Portugal. The acquisition of Covered Bonds through gift or

inheritance by a non-resident legal person is subject to corporate income tax at a rate of 25 per cent.. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is no wealth or estate tax in Portugal related to Covered Bonds.

2. Covered Bonds held through a centralised control system

The regime described in 1. above corresponds to the general tax treatment of investment income and capital gains on Covered Bonds and to the acquisition through gift or inheritance of such Bonds.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7 November 2005, as amended (“**the special regime approved by Decree-law 193/2005**”), investment income and capital gains on the disposal of debt securities issued by Portuguese resident entities, such as the Covered Bonds obtained by non-resident beneficial owners, are exempt from Portuguese income tax provided that the debt securities are integrated in a centralised system for securities managed by a resident entity or by an international clearing system managing entity established in another EU Member State or in an European Economic Area Member State (in this last case, provided it is bound by an administrative cooperation in tax matters similar to the one established within the EU) and that the beneficial owners are:

- (i) central banks and / or governmental agencies; or
- (ii) international bodies recognised by the Portuguese State; or
- (iii) entities resident in countries with whom Portugal has a double tax treaty in force or a tax information exchange agreement; or
- (iv) other entities without headquarters, effective management or a permanent establishment in Portuguese territory to which the relevant income is attributable to which are not domiciled in a low tax jurisdiction as set out in the Ministerial Order.

The special regime approved by Decree-law 193/2005 sets out the detailed rules and procedures to be followed on the evidence of non-residence by the beneficial owners of the bonds to which it applies. Under these rules, the direct register entity (i.e. the entity affiliated to the centralised system where the securities are integrated), as the entity holding the relevant account with the relevant centralised system in which the Covered Bonds are integrated, will be under the obligation (i) to withhold tax on the interest payments arising from the Covered Bonds, if necessary, or to (ii) obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the evidence of non-residence status should be provided to, and received by, the direct registration entities prior to the relevant date for payment of any interest, or the redemption date (for Zero Coupon Covered Bonds), and prior to the transfer of Covered Bonds date, as the case may be. The relevant direct registration entity shall withhold the relevant tax if the requirements for a withholding tax exemption are not met.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

The beneficial owner of Covered Bonds must provide proof of non-residence in Portuguese territory substantially in the terms set forth below.

- (i) If the beneficial owner of Covered Bonds is a central bank, an international organisation or public law entities and respective agencies, a declaration issued by the beneficial owner of Covered Bonds itself duly signed and authenticated, or proof of non-residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided just once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change on the requirement conditions that may prevent the tax exemption from applying;
- (ii) If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty, certification shall be made by means of the following: (A) its tax identification official form; 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 Covered Bonds and its domicile; or (C) proof of non-residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided just once, its periodical renewal not being necessary and the beneficial owner should inform the register entity immediately of any change on the requirement conditions that may prevent the tax exemption from applying;
- (iii) If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has in force a double tax treaty or a tax information exchange agreement, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, the law of incorporation and domicile; or (B) proof of non residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided just once, its periodical renewal not being necessary and the beneficial owner should inform the register entity immediately of any change on the requirement conditions that may prevent the tax exemption from applying;
- (iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese Consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence.

There are rules regarding the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3 year period starting on the date such document is produced. The beneficial owner of Covered Bonds must inform the register entity immediately of any change on the requirement conditions that may prevent the tax exemption to apply.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are registered in an account held by an international clearing system, pursuant to the requirements set forth in this tax regime, the identification and quantity of securities, as well as the amount of income, and, when applicable, the amount of tax withheld, shall be transmitted on each interest payment dates, segregated by the following categories of beneficiaries:

- (i) Entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable, non-exempt and subject to withholding;
- (ii) Entities which have residence in country, territory or region with a clearly more favourable regime, included in the Portuguese “blacklist” (countries and territories listed in Ministerial Order), non-exempt and subject to withholding;
- (iii) Entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable, exempt or non-subject to withholding;
- (iv) Other entities which do not have residence, headquarters, effective management or permanent establishment to which the income would be imputable.

In each interest payment date and each relevant redemption date, the following elements, regarding each one of the beneficiaries mentioned in a), b) and c) above, should be transmitted:

- (i) Name and address;
- (ii) Tax identification number, if applicable;
- (iii) Identification and quantity of the securities held;
- (iv) Amount of income;

The information referred above is transmitted by the international clearing system to the direct registration entity or to its representative, and should refer to the universe of accounts under its management.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law 193/2005 if the above rules and procedures are not complied with. Accordingly, the general Portuguese tax provisions shall apply as described above. This will be the case whenever the

Covered Bonds are not integrated in a centralised system for securities managed by a resident entity or by an international clearing system managing entity established in other EU Member State or in an European Economic Area Member State (in this last case, provided it is bound by an administrative cooperation in tax matters similar to the one established within the EU).

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005. The refund claim is to be submitted to the direct register entity of the Covered Bonds within 6 months from the date the withholding took place. A special tax form for these purposes was approved by Order (*Despacho*) no. 2937/2014, published in the Portuguese official gazette, second series, no. 37, of 21 February 2014 issued by the Secretary of State of Tax Affairs (*Secretário de Estado dos Assuntos Fiscais*), which is available at www.portaldasfinancas.gov.pt.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed from the Portuguese tax authorities and within 2 years from the end of the year in which tax was withheld.

EU Savings Directive

On 10 November 2015, the Council of the European Union adopted Council Directive (EU) 2015/2060 of 10 November 2015 repealing Council Directive 2003/48/EC of 3 June 2003 (the “Savings Directive”) from 1 January 2016 in the case of Portugal (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates) to prevent an overlap between Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, which is based on the format established by the Organisation for Economic Co-operation and Development (“OECD”) called Common Reporting Standard (“CRS”). This new global standard for automatic exchange of information on investment income shall completely replace the Savings Directive.

Portugal has implemented the Savings Directive into the Portuguese law through Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time. The forms currently applicable to comply with the reporting obligations arising from the implementation of the Savings Directive were approved by Governmental Order (*Portaria*) no. 563-A/2005, of 28 June 2005, and may be available for consultation at www.portaldasfinancas.gov.pt.

Accordingly, as a consequence of repealing of the Savings Directive by the recent Council Directive (EU) 2015/2060 of 10 November 2015, it is expected that Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time, as well as the forms approved by Governmental Order (*Portaria*) no. 563-A/2005, of 28 June 2005, will be revoked.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, 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 the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, 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 the Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds 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.

However, if additional Covered Bonds (as described under “Further Issues” in the “Terms and Conditions of the Covered Bonds”) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Although Portugal has signed an IGA with the United States which is not yet in force, it has recently implemented, through Law no. 82-B/2014, of 31 December 2014, the legal framework based on the reciprocal exchange of information with the United States on financial accounts subject to disclosure in order to comply with FATCA. Under this legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese government, which, in turn, would report such information to the IRS. It is foreseen that additional legislation will be created in Portugal namely on certain procedures, rules and dates in connection with FATCA.

Holders of Covered Bonds should consult their own tax advisers regarding how these rules may apply to their investment in Covered Bonds.

The proposed financial transaction tax

The EC has published a proposal for a Directive for a common financial transaction tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

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

Currently there is no information regarding participating Member States’ intentions to implement the FTT.

The FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement, represented and agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

Any such agreement will extend to those matters stated under “*Form of the Covered Bonds Interbolsa*” and “*Terms and Conditions of the Covered Bonds*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

The following restrictions may be amended or supplemented in the relevant Final Terms.

United States

The Covered Bonds have not been and will not be registered under the US Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from or in a transaction not subject to the registration requirements of the US Securities Act. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S under the US Securities Act. Terms used in this paragraph and the following paragraph have the meanings given to them by Regulation S under the US Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, except in accordance with Rule 903 of Regulation S under the US Securities Act. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to any Covered Bonds, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Covered Bonds from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. US Securities Act of 1933, as amended (the “**US Securities Act**”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their

distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the US Securities Act. Terms used above have the meanings given to them by Regulation S.”

In addition, until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Act.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended; the “**FIEA**”) and, accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan to, or for the benefit of, a resident in Japan, as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act no. 228 of 1949, as amended), or to others for re-offering or re-sale, directly or indirectly, in Japan to, or for the benefit of, a resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented, warranted 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 Covered Bonds which are 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 Covered Bonds to the public in that Relevant Member State:

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

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an “**offer of Covered Bonds to the public**” in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and
- the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/13/EU) and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving, the United Kingdom.

Italy

The offering of Covered Bonds has not been registered with the *Commissione nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that, save as set out below, it has not made and will not make an offer of any Covered Bonds to the public in the Republic of Italy, and that sales of the Covered Bonds in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations; in particular, no Covered Bonds may be offered, sold or delivered, nor copies of the Base Prospectus or of any other document relating to any Covered Bonds may be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, paragraph 1 (letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (“**Regulation No. 11971**”); or
- (ii) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Law, CONSOB Regulation No. 16190 of 29 October 2007, as amended, and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”);
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Portugal

In relation to the Covered Bonds, each Dealer has represented, warranted and agreed with the Issuer, and each further Dealer appointed under the Programme will be required to represent and agree, that: the Covered Bonds may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer under the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree-Law no. 486/99, of 13 November 1999 (as amended and restated from time to time) unless the requirements and provisions applicable to the public offering in Portugal are met and registration, filing, approval or passport procedures with the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*, “**CMVM**”) is made; regarding any offer or sale of Covered Bonds by it in Portugal or to individuals resident in Portugal or having a permanent establishment in Portugal, it will comply with all laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code, any regulations issued by the CMVM and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended, and other than in compliance with all such laws and regulations: (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer (“*oferta pública*”) of securities pursuant to the Portuguese Securities Code and

other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portugal, as the case may be; (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal. Private placements addressed by companies open to public investment (“*sociedades abertas*”) or by companies issuing securities listed on a regulated market shall be notified to the CMVM for statistics purposes.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

Secondary Market Arrangements

The Issuer may enter into agreements with Dealers or other persons in relation to a Tranche or Series of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements. A description of the main terms of any such agreements and the names and addresses of the relevant Dealers or other persons who are party to such will be disclosed in the applicable Final Terms for the relevant Covered Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Executive Committee of the Board of Directors of the Issuer on 9 January 2008, and the Programme has been subsequently updated by authorisations of the Issuer's relevant management body, the last update having been duly authorised by a resolution of the Executive Committee of the Board of Directors of the Issuer dated 8 June 2016 in accordance with the provisions of the Covered Bonds Law.

Listing

In respect of Covered Bonds which are intended to be listed, application will be made to Euronext for the admission of Covered Bonds issued under the Programme to trading on the regulated market Euronext Lisbon.

Registration and Settlement

The Covered Bonds have been accepted for registration and settlement through Interbolsa, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds will be specified in the relevant Final Terms.

Conditions for Determining Price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and will be disclosed to investors through the Final Terms.

Significant or material change

There has been no significant change in the financial or trading position of the Issuer since 31 December 2015 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2015.

Litigation

Save as disclosed in the section "*Risk Factors – Risks specific to the Issuer - The auditors' reports scheduled to the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015 contain emphases*" above, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus, which may have or have had in the recent past significant effects on the Issuer's or the BST Group's financial position or profitability.

Accounts

The auditors of the Issuer for each of the financial years ended 31 December 2014 and 31 December 2015 were Deloitte & Associados - SROC, S.A., which is a member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon, Portugal, represented in 2014 by Eduardo Manuel Fonseca Moura and in 2015 by Maria Augusta Cardador Francisco.

The financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015 are incorporated by reference in this Base Prospectus.

BST's consolidated financial statements were prepared on a going concern basis, from its books and accounting records maintained in accordance with the accounting principles set forth in the International Financial Reporting Standards (IAS/IFRS) as adopted by the EU, Regulation (EC) 1606/2002 of July 19 of the European Parliament and the Council, as amended, implemented into Portugal by Decree-law 35/2005, of 17 February 2005, amended by Decree-law 158/2009, of 13 July 2009 and the Bank of Portugal Regulation 1/2005, of 21 February 2005, as amended⁵. Where BST Group companies use different accounting principles, appropriate adjustments were made.

The financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015 were audited in accordance with the auditing standards ("*Normas Técnicas e Directrizes de Revisão/Auditoria*") issued by the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), which require the examination to be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. The financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015, which are incorporated by reference in this Base Prospectus, were audited by Deloitte & Associados - SROC, S.A., represented in 2014 by Eduardo Manuel Fonseca Moura and in 2015 by Maria Augusta Cardador Francisco.

On 31 May 2016, the annual meeting of shareholders of BST took place and approved, *inter alia*, PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda. as the new auditor of the Bank, for the years 2016/2018 (see *Management and Statutory Bodies*).

⁵ Bank of Portugal Regulation 1/2005, of 21 February was revoked by Bank of Portugal Regulation 5/2015 of 30 December 2015, which entered into force on 1 January 2016

Documents Available

Copies of the following documents will, when published, be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Paying Agents for the time being:

- (a) the bylaws (including an English translation thereof) of the Issuer;
- (b) the audited consolidated financial statements of the Issuer and the auditor's report contained in the Issuer's Annual Report in respect of the financial years ended 31 December 2014 and 31 December 2015 (Portuguese and English versions);
- (c) the Programme Agreement and the Set of Agency Procedures, both dated 4 April 2008, as amended and restated;
- (d) the Common Representative Appointment Agreement dated 4 April 2008, as amended and restated;
- (e) this Base Prospectus;
- (f) any offering circulars, information memoranda and supplements, including Final Terms (except for Final Terms relating to Covered Bonds which are not listed on any stock exchange), to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (g) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Electronic copies

Electronic copies of this Base Prospectus (and any supplements thereto, and Final Terms pertaining to Covered Bonds traded on Euronext Lisbon) are available from the official website of the CMVM (www.cmvm.pt) and of the Issuer (www.santandertotta.com).

Copies of items (b) and (c) above may be obtained from the websites of the CMVM and of the Issuer and copies of item (a) above can be obtained from the Issuer's website.

Post-issuance information

Any information which the Issuer is required by law or regulation to provide in relation to itself or securities issued by it, including the Covered Bonds, will be made available at www.cmvm.pt.

The Issuer publishes quarterly investor reports on the outstanding Covered Bonds, including information on the Cover Pool and the applicable Overcollateralisation. Such reports are available at: https://www.santandertotta.pt/pt_PT/Investor-Relations/Emissao-de-Divida/2016.html.

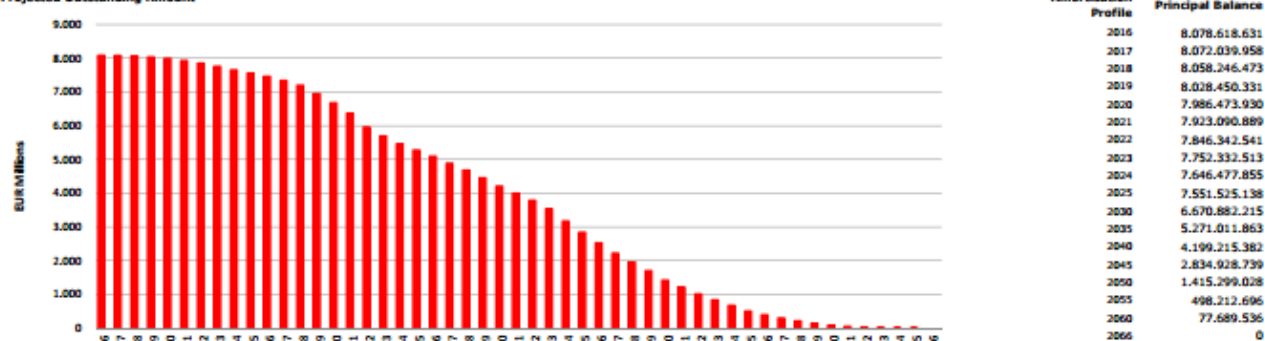
The following information can be found on the March 2016 Investor Report:

2. Covered Bonds	Issue Date	Coupon	Maturity Date	Soft Bullet Date	Remaining Term (years)	Nominal Amount
Covered Bonds Outstanding					2,17	6.950.000.000,00
Syndicated Covered Bonds Issues						
Covered Bond 12 (PTBSQDOE0020)	01-04-2014	Fixed	03-04-2017	03-04-2018	1,01	1.000.000.000,00
Covered Bond 13 (PTBSQDOE0029)	11-06-2014	Fixed	11-06-2019	11-06-2020	3,20	750.000.000,00
Covered Bond 15 (PTBSRBOE0021)	27-10-2015	Fixed	27-10-2020	27-10-2021	4,58	750.000.000,00
Private Placements Covered Bonds Issues						
Covered Bond 9 - Tranche 2 (PTBTAJOE0013)	15-04-2013	Floating	15-04-2016	15-04-2017	0,04	750.000.000,00
Covered Bond 10 (PTBTCKOE0018)	26-07-2013	Floating	26-07-2016	26-07-2017	0,32	750.000.000,00
Covered Bond 11 - Tranche 1 (PTBSQBOE0022)	19-12-2013	Floating	19-12-2016	19-12-2017	0,72	500.000.000,00
Covered Bond 11 - Tranche 2 (PTBSQAOE0023)	19-12-2013	Floating	19-12-2016	19-12-2017	0,72	500.000.000,00
Covered Bond 11 - Tranche 3 (PTBSQCOE0021)	13-01-2014	Fixed	13-01-2017	13-01-2018	0,79	750.000.000,00
Covered Bond 14 (PTBSRAOE0022)	04-03-2015	Fixed	04-03-2022	04-03-2023	5,93	750.000.000,00
Covered Bond 16 (PTBSRCOE0020)	24-02-2016	Fixed	24-02-2021	24-02-2022	4,91	450.000.000,00
CRD Compliant (Yes/No)						Yes
3. Asset Cover Test					Remaining Term (years)	Nominal Amount
Mortgage Credit Pool					24,88	8.080.346.810,83
Other Assets (Deposits and Securities at market value) ²					0,00	0,00
Cash and Deposits					0,00	0,00
RMBS					0,00	0,00
Other securities					0,00	0,00
Total Cover Pool					24,88	8.080.346.810,83
% of ECB eligible assets						0,00%
Overcollateralization ³ with cash collateral (OC)						16,26%
Committed overcollateralization (Fitch) - Minimum OC level to keep the current Mortgage Covered Bond Programme rating						15,00%
Committed overcollateralization (DBRS) - Minimum OC level to keep the current Mortgage Covered Bond Programme rating						15,00%
Legal minimum overcollateralization						5,26%
4. Other Triggers						
Net Present Value of Assets (incl. derivatives) ⁴						7.589.136.761,18
Net present value of liabilities (incl. derivatives) ⁴						6.997.806.085,90
Net Present Value of Assets (incl. derivatives) - Net present value of liabilities (incl. derivatives) ≥ 0						OK
Net Present Value of Assets (incl. derivatives) - Net present value of liabilities (incl. derivatives) ≥ 0 (stress of + 200bps)						OK
Net Present Value of Assets (incl. derivatives) - Net present value of liabilities (incl. derivatives) ≥ 0 (stress of - 200bps)						OK
Other Assets ≤ 20% (Cover Pool + Other Assets)						OK
Deposits with a remaining term > 100 days ≤ 15% Covered Bonds Nominal						OK
Estimated Interest from Mortgage Credit and Other Assets - Estimated Interest from Covered Bonds ≥ 0						OK
Mortgage Credit + Other Assets WA Remaining Term - Covered Bonds WA Remaining Term ≥ 0						OK
5. Currency Exposure						
Cover Pool Includes						
Assets in a currency different than Euro (yes/no)						No
Liabilities in a currency different than Euro (yes/no)						No
Cross currency swaps in place (yes/no)						No
Currency Exposure Detail						n/a
6. Mortgage Credit Pool						
Main Characteristics						
Number of Loans						165.924
Aggregate Original Principal Balance (EUR)						11.497.831.503,96
Aggregate Current Principal Balance (EUR)						8.080.346.810,83
Average Original Principal Balance per loan (EUR)						69.295,77
Average Current Principal Balance per loan (EUR)						48.699,08
Current principal balance of the 5 largest borrowers						7.155.478,21
Weight of the 5 largest borrowers (current principal balance) %						0,09%
Current principal balance of the 10 largest borrowers						12.059.124,83
Weight of the 10 largest borrowers (current principal balance) %						0,15%
Weighted Average Seasoning (months)						104,62
Weighted Average Remaining Terms (months)						302,76
Weighted Average Current Unindexed LTV ⁵ (%)						54,11%
Weighted Average Current Indexed LTV ⁵ (%)						55,01%
Weighted Average Interest Rate (%)						1,27%
Weighted Average Spread (%)						1,26%
Max Maturity Date (yyyy-mm-dd)						2066-04-02
Subsidized Loans						
				Number of Loans	% Total Loans	Amount of Loans % Total Amount
Yes				31.586	19,04%	998.859.552 12,36%
No				134.338	80,96%	7.081.487.259 87,64%
Insured Property ⁶						
				Number of Loans	% Total Loans	Amount of Loans % Total Amount
Yes				165.924	100,00%	8.080.346.811 100,00%
No				0	0,00%	0 0,00%
Interest Rate Type						
				Number of Loans	% Total Loans	Amount of Loans % Total Amount
Fixed				5.338	3,22%	137.509.138 1,70%
Floating				160.586	96,78%	7.942.837.673 98,30%
Repayment Type						
				Number of Loans	% Total Loans	Amount of Loans % Total Amount
Annuity / French				164.022	98,85%	7.965.254.220 98,58%
Linear				0	0,00%	0 0,00%
Increasing instalments				223	0,13%	2.538.517 0,03%
Bullet				0	0,00%	0 0,00%
Interest-only				1.655	1,00%	112.124.925 1,39%
Other				24	0,01%	429.148 0,01%

6. Mortgage Credit Pool (continued)

Average Credit Year (continued)				
Seasoning	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Up to 1 year	5.414	3,26%	484.808.269	6,00%
1 to 2 years	3.559	2,14%	288.697.952	3,57%
2 to 3 years	2.631	1,59%	187.313.661	2,32%
3 to 4 years	2.983	1,80%	199.147.203	2,46%
4 to 5 years	4.055	2,44%	275.980.539	3,42%
5 to 6 years	10.482	6,32%	753.752.303	9,33%
6 to 7 years	13.135	7,92%	882.821.749	10,93%
7 to 8 years	11.931	7,19%	686.949.433	8,50%
8 to 9 years	17.779	10,72%	1.009.025.028	12,49%
9 to 10 years	11.377	6,86%	610.066.460	7,55%
10 to 11 years	9.352	5,64%	395.992.538	4,90%
11 to 12 years	9.105	5,49%	388.165.915	4,80%
More than 12 Years	64.121	38,64%	1.917.625.761	23,73%
Remaining Term	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Up to 5 years	11.854	7,14%	107.139.603	1,33%
5 to 8 years	12.681	7,64%	245.253.118	3,04%
8 to 10 years	7.353	4,43%	200.012.410	2,48%
10 to 12 years	6.964	4,20%	225.943.475	2,80%
12 to 14 years	11.869	7,15%	422.595.754	5,23%
14 to 16 years	15.299	9,22%	597.232.115	7,39%
16 to 18 years	14.985	9,03%	656.509.617	8,12%
18 to 20 years	8.106	4,89%	399.925.425	4,95%
20 to 22 years	7.388	4,45%	396.900.980	4,91%
22 to 24 years	7.651	4,61%	436.961.194	5,41%
24 to 26 years	7.273	4,38%	446.616.694	5,53%
26 to 28 years	8.183	4,93%	498.209.823	6,17%
28 to 30 years	10.795	6,51%	695.269.975	8,60%
30 to 40 years	29.708	17,90%	2.285.386.442	28,28%
More than 40 years	5.815	3,50%	466.390.186	5,77%
Current Indexed LTV	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Up to 40%	60.619	36,53%	1.683.268.112	20,83%
40 to 50%	22.894	13,80%	1.113.801.348	13,78%
50 to 60%	26.381	15,90%	1.472.517.161	18,22%
60 to 70%	30.060	18,12%	1.867.908.794	23,12%
70 to 80%	25.970	15,65%	1.942.851.395	24,04%
More than 80%	0	0,00%	0	0,00%
Loan Purpose	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Owner-occupied	157.406	94,87%	7.593.468.202	93,97%
Second Home	8.499	5,12%	486.374.606	6,02%
Buy to let	19	0,01%	504.003	0,01%
Other	0	0,00%	0	0,00%
Property Type	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Residential				
Flat	103.243	62,22%	4.706.386.583	58,24%
House	62.132	37,45%	3.342.995.437	41,37%
Other	549	0,33%	30.964.791	0,38%
Commercial				
Geographical Distribution	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
North	53.252	32,09%	2.517.495.565	31,16%
Center	32.737	19,73%	1.511.298.570	18,70%
Lisbon	54.721	32,98%	2.868.693.213	35,50%
Alentejo	12.216	7,36%	487.095.679	6,03%
Algarve	9.643	5,81%	512.260.723	6,34%
Madeira	2.417	1,46%	138.246.767	1,71%
Azores	938	0,57%	45.256.293	0,56%
Delinquencies ⁷	Number of Loans	Total Loan Amount		
> 30 days to 60 days	469	17.927.822		
> 60 days to 90 days	75	2.478.395		
> 90 days	0			

Projected Outstanding Amount⁸



⁷ Includes mortgage pool and other assets; assumes no prepayments.

7. Expected Maturity Structure

In EUR	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-10 Years	>10 Years
Residential Mortgages ⁸	2.812.358	8.333.673	16.471.442	33.138.525	46.500.909	445.514.907	7.527.574.997
Commercial Mortgages	0	0	0	0	0	0	0
Other Assets ⁹	0	0	0	0	0	0	0
Cover Pool	2.812.358	8.333.673	16.471.442	33.138.525	46.500.909	445.514.907	7.527.574.997
Covered Bonds	3.250.000.000	1.000.000.000	0	750.000.000	1.200.000.000	750.000.000	0

⁸ Includes mortgage pool and other assets; assumes no prepayments.

Dealers transacting with the Issuer

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

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

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

“Additional Security” means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

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

“Agent” Banco Santander Totta, S.A., in its capacity as Agent, with head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, and any successor or additional Agent appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

“Arranger” means Morgan Stanley & Co. International plc and any other entity appointed as an arranger for the Programme and references in this Agreement to the Arranger shall be references to the relevant Arranger.

“Banif” means Banif – Banco Internacional do Funchal, S.A.

“Bank of Portugal Regulatory Notices” means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulatory Notice 5/2006, Regulatory Notice 6/2006, Instruction 13/2006, Regulatory Notice 7/2006 and Regulatory Notice 8/2006 and any applicable Regulatory Notices which may be issued in the future.

“Base Prospectus” means this base prospectus dated 14 July 2016, as supplemented, prepared in connection with the Programme.

“Bearer Covered Bonds” means any Covered Bonds issued in bearer form (*ao portador*).

“BRRD” means the Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms.

“BST” means Banco Santander Totta, S.A.

“BST Group” means the Issuer together with its consolidated subsidiaries.

“Business Day” means a day which is both: (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign

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

“**Calculation Agent**” except if and where defined otherwise in this Base Prospectus, has the meaning ascribed to it in the Final Terms.

“**Capital Requirements Directive**” comprises Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast), each as amended.

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

“**Clearing System**” means Interbolsa.

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

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

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

“**Common Representative Appointment Agreement**” means the agreement dated 4 April 2008 entered into between the Issuer and the Common Representative and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative, as amended and restated.

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

“**Cover Pool Monitor**” means PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, 1, 3º, 1069-316 Lisbon, Portugal.

“**Cover Pool Monitor Agreement**” means the agreement dated 4 April 2008 and currently entered into between the Issuer and the Cover Pool Monitor, as amended and restated.

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

“**Covered Bonds Law**” means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended.

“**CRA Regulation**” means Regulation (EC) No. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended.

“**CRD IV**” means, taken together, the Directive 2013/36/EU and Regulation (EU) 575/2013, any future regulation thereto and any implementing legislation in Portugal.

“**Credit Institutions General Regime**” means the General Regime for Credit Institutions and Financial Companies, as enacted by the Decree-law 298/92, of 31 December 1992, as amended.

“**CRR**” means Regulation (EU) no 648/2012 of the European Parliament and of the Council of 4 July 2012.

“**CSD**” means a central securities depository.

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

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

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

“**DBRS**” means DBRS, Inc.

“**Dealers**” means Banco Santander, S.A., Banco Santander Totta, S.A., Barclays Bank PLC, BNP Paribas, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, Goldman Sachs International, HSBC Bank plc, Merrill Lynch International, Morgan Stanley & Co.

International plc, Natixis, Société Générale, UBS Limited, UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement.

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

“**Directive 2013/36/EU**” means Directive no. 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

“**EC**” means the European Commission.

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

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

“**EU**” means the European Union.

“**EUR**”, “**€**” or “**Euro**” or “**euro**” means the lawful currency of Member States of the EU that adopt the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty.

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

“**Euronext**” means Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A..

“**Euronext Lisbon**” means Euronext Lisbon, a regulated market managed by Euronext.

“**Eurosystem**” means the central banking system for the euro.

“**Final Terms**” means the final terms issued in relation to each Tranche of Covered Bonds and giving details of that Tranche of Covered Bonds and, in relation to any particular Tranche of Covered Bonds, applicable Final Terms means the Final Terms applicable to that Tranche of Covered Bonds.

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

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

“**GBP**”, “**£**” or “**pounds sterling**” means pounds sterling, the lawful currency of the United Kingdom.

“**Hedge Counterparties**” means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

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

“**IMF**” means the International Monetary Fund.

“**INE**” means the Statistics Portugal.

“**Insolvency Event**” means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, as amended, Credit Institutions General Regime and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004, as amended).

“**Instruction 13/2006**” means the regulatory instruction (*Instrução*) 13/2006 issued by the Bank of Portugal and published on 15 November 2006, relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

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

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

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

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

“**Issuer**” means Banco Santander Totta, S.A.

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

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

“**Moody’s**” means Moody’s Investors Service Ltd;

“Mortgage” means, in respect of any Mortgage Credit, the charge by way of voluntary mortgage over the relevant Property the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

“Mortgage Credit” means a credit receivable granted by the Issuer secured by a Mortgage and/or any Additional Security, which is registered as being comprised in the Cover Pool for the amount and with the characteristics required to be indicated pursuant to the Covered Bonds Law and which complies with the following eligibility criteria established in the Covered Bonds Law:

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

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

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

“OECD” means the Organisation for Economic Co-operation and Development.

“O-SIIs” means Other Systemically Important Institutions identified by the Bank of Portugal pursuant to the Framework of Credit Institutions and Financial Companies and within the scope of the exercise of its powers as macro-prudential authority.

“Other Assets” means all assets other than Mortgage Credits and Hedging Contracts which are included in the Cover Pool as specified in the Register, which comply with the following criteria:

- (a) deposits with the Bank of Portugal in cash, or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a minimum long term rating at least equal to “A2” or “A” or equivalent and a minimum short term rating at least equal to “A-1,” “P-1” or “F1” or equivalent; and

- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

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

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

“Overcollateralisation Percentage” means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26 per cent.; and (ii) without prejudice to (i) above, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) if this could result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch.

“Paying Agents” means Banco Santander Totta, S.A., in its capacity as Paying Agent, with head office at Rua Áurea, no. 88, 1100-063 Lisbon, Portugal, and any successor or additional Paying Agent appointed from time to time by the Issuer in connection with the Covered Bonds and under the Set of Agency Procedures.

“Portuguese Companies Code” means the commercial companies code approved by Decree-law 262/86, of 2 September 1986, as amended.

“Portuguese Securities Code” means Decree-law 486/99, of 13 November 1999, as amended.

“Principal Amount Outstanding” means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

“Programme” means the €12,500,000,000 covered bonds programme established on 4 April 2008 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

“Programme Agreement” means the agreement dated 4 April 2008 entered into between the Issuer and the Dealers, as amended and restated.

“Programme Documents” means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

“Programme Resolution” means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or

directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

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

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

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

“Prospectus Directive” means Directive No. 2003/71/EC, of the European Parliament and of the Council, of 4 November 2003, as amended.

“Prospectus Regulation” means Commission Regulation (EC) No. 809/2004, as amended.

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

“Rating Agencies” means Moody’s, S&P and Fitch, which are registered with the European Securities and Markets Authority under the CRA Regulation; DBRS, which as it is not established in the EU and has not applied for registration under the CRA Regulation, issues ratings that are endorsed in accordance with the CRA Regulation by DBRS Ratings Limited, which is registered with the European Securities and Markets Authority under the CRA Regulation; and any other rating agency registered under the same CRA Regulation.

“Reference Banks” means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page or, if applicable, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

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

“Registered Covered Bond” means any Covered Bond in registered (*nominativas*) form.

“Regulation (EU) 575/2013” means Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms, as may be amended from time to time.

“Regulatory Notice 5/2006” means the regulatory notice (*Aviso*) 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“Regulatory Notice 6/2006” means the regulatory notice (*Aviso*) 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“Regulatory Notice 7/2006” means the regulatory notice (*Aviso*) 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

“Regulatory Notice 8/2006” means the regulatory notice (*Aviso*) 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

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

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

“Relevant Screen Page” has the meaning ascribed to it in the Final Terms.

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

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

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

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

“**Set of Agency Procedures**” means the set of agency procedures dated 4 April 2008 (as amended and restated) and made and agreed by Banco Santander Totta, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer.

“**Stabilising Manager**” means the Dealer or Dealers (if any) named as the stabilising manager(s) for a particular Tranche of Covered Bonds.

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

“**Substitute Credit Institution**” means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

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

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

“**TARGET2 System**” means the Trans-European Automated Real-time Gross Settlement Express Transfer Payment System which utilises a single shared platform and which was launched on 19 November 2007 (TARGET2).

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

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

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

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

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

“Treaty” means the treaty on the Functioning of the EU, as amended.

“Troika” means the IMF, the EC and the ECB.

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

“U.S.\$”, “USD” or “U.S. dollars” means United States dollars, the lawful currency of the United States of America.

“Value” means:

(a) in relation to a Mortgage Credit:

- (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest;
- (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

(b) in relation to any Other Assets:

- (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;
- (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

ANNEX – ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information contained in this Base Prospectus prepared in accordance with the financial reporting framework applicable to the Issuer, some Alternative Performance Measures (“APMs”), in accordance with ESMA Guidelines on Alternative Performance Measures dated 5 October 2015 (ESMA/2015/1415en) (the “**ESMA Guidelines**”), are disclosed in this annex. BST discloses these APMs for better understanding of its financial performance. These APMs constitute additional financial information and shall not, in any circumstance, replace the financial information produced under the applicable reporting framework. The definition and calculation of APMs by the Issuer may differ from the definition and calculation of APMs used by other issuers of covered bonds and may not be compared.

ESMA Guidelines define an APM as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Following the recommendations of ESMA Guidelines, the following APMs are used on this Base Prospectus.

Note	Page	Explanation
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1	126	The Issuer made the following adjustments to the profit and loss account:
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	Components	€Mio	
		Accounts 2015 ^(page 80)	Prospectus ^(page 127)
+	Income before taxes	686,495	
-	Result from the acquisition of the activity of Banif		268,1
	"Result from the acquisition of the activity of Banif" (page 80 accounts 2015)		327,2
+	"Integration costs of the activity of former Banif" (page 118 - Note 1.4 par. 6)		53,0
-	Amount included in "Other provisions" ^(page 163 - Note 22 accounts 2015)		6,0
=	Income before taxes and MI		418,4
-	Taxes ^(page 80 accounts 2015)	118,1	
	Tax effect from "General Administrative expenses" (page 118 - Note 1.4 par. 6 accounts 2015)		+53*29% = 15,37
=	Taxes including Tax effect		133,5
=	Net Income	568,4 ^(Income before taxes - Taxes)	284,9 ^(Income before taxes - Result from the acquisition of Banif - Taxes including tax effect)

2	126	<table> <tr> <th></th><th>Components</th><th>€Mio</th></tr> <tr> <td></td><td>Loans and advances to Customers - Gross amount (perimeter 20122015 + Reclassifications) (page 115 accounts 2015)</td><td>6,812</td></tr> <tr> <td>+</td><td></td><td></td></tr> <tr> <td>-</td><td>Reclassifications</td><td>0,746</td></tr> <tr> <td>-</td><td>Purchase adjustments (Loans and advances to Customers - purchase adjustments) (page 115 accounts 2015))</td><td>0,828</td></tr> <tr> <td>+</td><td>Best estimate of impairments (page 116 c) "best estimate of impairment" accounts 2015)</td><td>1,30336</td></tr> <tr> <td>=</td><td>Credit Portfolio (Banif) (Prospectus)</td><td>6,500</td></tr> </table>		Components	€Mio		Loans and advances to Customers - Gross amount (perimeter 20122015 + Reclassifications) (page 115 accounts 2015)	6,812	+			-	Reclassifications	0,746	-	Purchase adjustments (Loans and advances to Customers - purchase adjustments) (page 115 accounts 2015))	0,828	+	Best estimate of impairments (page 116 c) "best estimate of impairment" accounts 2015)	1,30336	=	Credit Portfolio (Banif) (Prospectus)	6,500
	Components	€Mio																					
	Loans and advances to Customers - Gross amount (perimeter 20122015 + Reclassifications) (page 115 accounts 2015)	6,812																					
+																							
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-	Purchase adjustments (Loans and advances to Customers - purchase adjustments) (page 115 accounts 2015))	0,828																					
+	Best estimate of impairments (page 116 c) "best estimate of impairment" accounts 2015)	1,30336																					
=	Credit Portfolio (Banif) (Prospectus)	6,500																					
3	126	The gross value of the credit portfolio takes into account the sum of gross value for BST credit (page 138, note 10. of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €26,839 million), the gross value of Banif acquisition (page 116, note 1.4 c) of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015- €7,283 million) and guarantees and sureties given (page 122, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - € 1,46 million)																					
4	126	As per Instruction 23/2011 and 24/2012 of the Bank of Portugal																					
	132																						
5	127	Corresponds to the sum of “resources of customers and other debt” (page 79 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €27,126 million) and other financial assets placed in BST customers (Investment Funds and Insurance products - €4,806 million – off-balance sheet items, extracted from MIS (management information system))																					
6	127	Corresponds to the ratio of Loans and advances to Customers - net assets (page 79 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €31,780 million) and the sum of adjusted Resources of customers and other debts (which corresponds to Resources of customers and other debts (€27,126 million) minus cheques and orders payable (€48.729 million) plus value adjustments of hedging operations (€4.423 million) plus expenses of deferred charges (€0.943 million - page 160, note 20 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015) and Loans from EIB (page 79 - included in “resources of other credit institutions”; page 159 – note 19 “Resources of other credit institutions - other resources” of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €600 million)																					
7	127	As per Instruction 3/2015 of the Bank of Portugal - corresponds to the difference between amounts taken in the Eurosystem and deposited in the Eurosystem																					
8	128	Corresponds to net interest income (page 80 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)																					
9	128	Corresponds to “Dividends received” (page 83 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)																					
10	128	Corresponds to the sum of “Net commissions” and “other results from banking activity” (page 121, note																					

		3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
11	128	Corresponds to “Commercial margin” (page 121, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
12	128	Corresponds to “Results from financial operations” (page 121, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
13	128	Corresponds to “Net income from banking activities” (page 121, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
14	128	Corresponds to the sum of “Operating costs” and “Depreciation and amortization” (page 121, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €522.927 million) minus “Integration costs of the activity of former Banif” (page 118, note 1.4 par. 6 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €53 million)
15	128	Corresponds to “Impairment and provisions, net of reversals” (page 121, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 - €242.257 million - minus €6 million (included in “Other provisions Note 22 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
16	128	Please refer to Note 1 above
17	128	Corresponds to “Non-controlling interests” (page 80 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
18	129	Corresponds to “Staff costs” (page 80 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
19	129	Corresponds to the difference between €207,202 million “General administrative costs” (page 80 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015) and €53 million “Integration costs of the activity of former Banif”- (page 118 note 1.4, par. 6 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
20	129	Corresponds to “Depreciation in the year” (page 80 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
21	129	Results from the ratio between total operating costs excluding depreciation (€469.9 million) and operating income (€1110 million)
22	129	Results from the ratio between total operating costs including depreciation (€429.8 million) and operating income (€1110 million)
23	130	Please refer to Note 3 and Note 5 above

24	130	Please refer to Note 6 above
25	131	According to the Issuer's line of business definitions. Information extracted from MIS (management information system)
26	131	According to the Issuer's line of business definitions. Information extracted from MIS (management information system)
27	131	Corresponds to "Mortgage Loans" (page 122, note 3 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
28	131	According to the Issuer's product definition. Information extracted from MIS (management information system)
29	132	Corresponds to "Resources of customers and other debts" (page 79 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
30	132	Securities issued by BST and placed with retail clients (information included in page 250 of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015)
31	132	Calculated in accordance with CRD IV/CRR

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