



# 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 “**BST**”), 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 will be issued in nominative form (*nominativas*) 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 on-going 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 (the “**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 (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 of 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**”), “BBB-” with a stable outlook from Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), “BBB +” with a stable outlook from Fitch Ratings Limited (“**Fitch**”) and “A ” 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 United States of America (“**United States**”) 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 26 July 2018

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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.

#### PROHIBITION OF SALES TO EEA RETAIL INVESTORS

If the Final Terms in respect of any Covered Bonds includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Covered Bonds are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”) or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

## BENCHMARKS REGULATION

Amounts payable on Floating Rate Covered Bonds may be calculated by reference to one of the Euro Interbank Offered Rate (“**EURIBOR**”) or the London Interbank Offered Rate (“**LIBOR**”) as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of LIBOR (the ICE Benchmark Administration Limited) is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**Benchmarks Regulation**”). The administrator of EURIBOR (the European Money Markets Institute (“**EMMI**”) is not included on such register.

As far as the Issuer is aware, the transitional provisions in Article 51 including its pars. (1) and (3), of the Benchmarks Regulation apply, such that EMMI is not currently required to obtain authorisation or registration.

## 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 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.

The Portuguese economy has been on a sustained growth path since 2014, after concluding an Economic Adjustment Programme (the “**Adjustment Programme**”) agreed with 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 Adjustment Programme agreed with the Troika through a memorandum of understanding (“**Memorandum of Understanding**”) 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 the gross domestic product (“GDP”) in 2010. In 2017, the deficit was 0.9 per cent. of GDP, when excluding the costs associated with the recapitalisation of Caixa Geral de Depósitos, S.A. (“CGD”) (in the amount equivalent to 2 per cent. of GDP and other one-offs). (*Source: Portuguese Public Finance Council, Analysis of the General Government Account 2017*). 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. In 2017, public debt was 125.7 per cent. of GDP, having stabilised around 130 per cent. of GDP in the previous three years, despite the costs associated with the resolutions of Novo Banco (in 2014) and Banif (in 2015). (*Source: Portuguese Public Finance Council, Analysis of the General Government Account 2017*).

The performance of the Portuguese economy between 2011 and 2013 reflected the adverse domestic and external environment, with the impacts of the restrictive budget oriented policies in Portugal and the recession in Europe, resulting in a cumulative decline of GDP of 6.8 during this period, in real terms. 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. Since 2014, GDP has grown a cumulative 7.2 per cent. and real GDP has resumed back to 2011 levels. In the first quarter of 2018, GDP grew 2.1 per cent., and for the rest of the year, the estimates are that GDP will grow 2.3 per cent. (*Source: Bank of Portugal, Projections for the Portuguese Economy, March 2018*).

The deleveraging and financial rebalancing of all business sectors resulted in a surplus of external accounts since 2013, always in excess of 1.0 per cent. of GDP (in 2017, it was 1.4 per cent.) (*Source: Bank of Portugal, Economic Bulletin May 2018*).

In 2016 and 2017, following the change in Government, policies were changed, but the fiscal consolidation strategy has been maintained. While reversing some measures which the Constitutional Court deemed temporary during the Adjustment Programme, in terms of wages and pensions in the Civil Service, the deficit was reduced to 0.9 per cent. of GDP in 2017 (excluding one-off adjustments), and public debt was maintained in a sustainable trajectory.

The Government aims to bring the fiscal balance to a surplus by 2022, under the current Stability Programme, presented to the European Union. 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 and the recent economic recovery do not guarantee, by themselves, 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. In 2017, the economy grew 2.7 per cent. characterised by the consistent decline of the unemployment rate, specially driven by recurrent reduction of long-term unemployment. The main economic drivers during this year were from exports dynamics and a positive rebound in investment. For 2018, after a first quarter growth which showed some deceleration, the growth outlook is 2.3 per cent., mainly driven by exports and investment. In 2017, long term yields have narrowed in all maturity curves, therefore accentuating the narrowing of spreads vis-à-vis the German Government Bonds.

In 2018, as political uncertainty unfolded in Italy, and to a lesser extent, in Spain, with newly elected governments in both countries, spreads have temporarily widened, before resuming previous levels (135 basis points as of 18 June 2018). Nevertheless Portugal has been able to maintain its market funding at reduced interest rate levels. Since 2015, Portugal repaid more than 80 per cent. of the original loan to the IMF, or EUR 23.8 billion out of approximately EUR 28.7 billion in total, 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, as was the case during the first quarter of 2018, with partial contagion from external sources.

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 signs of improvement in the labour market (with the unemployment rate down to 7.9 per cent. in the first quarter of 2018) and the reduction of the



number of corporate insolvencies, risks remain that the still high unemployment, the low profitability, the still high level of indebtedness of companies, at a time the ECB is signalling the end to its non-conventional monetary policy measures, 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**

The current ratings of the Portuguese Republic are as follows: S&P: BBB- as of 15 September 2017, with stable outlook as of 16 March 2018; Moody's: Ba1 as of 25 July 2014, with a positive outlook as of 1 September 2017; Fitch: BBB as of 15 December 2017, with a stable outlook as of 15 December 2017; DBRS: BBB as of 20 April 2018, with stable outlook as of 20 April 2018.

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 years, downgraded the long term rating of Portugal, although on 15 September 2017 S&P revised the rating upwards to BBB-, on 25 July 2014 Moody's revised the rating upwards to Ba1, and on 15 December 2017 Fitch revised the rating upwards to BBB (each remaining in this case 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 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 still face some constraints. In this context, despite the ECB's net funding (net of investment) having been increased to EUR 2.5 billion in December 2017 (December 2016: EUR 1.8 billion), the BST Group's liquidity operations with the ECB continue to be very important.

As at 31 December 2017, the BST Group's portfolio of securities eligible for rediscount with the ECB was of EUR 12 billion, compared to EUR 14.3 billion as at 31 December 2016. 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. The eligibility of Portuguese public debt will depend on the maintenance of an "investment grade" rating by at least one rating agency (all agencies except Moody's assign an "investment grade" rating to Portugal). In this context, a credit rating downgrade of Portugal simultaneously by S&P, Fitch and 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 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. Banks participating in TLTRO-II can borrow an amount up to 30 per cent. of their outstanding loans to businesses and consumers;

- 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.. As of 2 January 2017, the APP was further amended. In addition to the extension of the programme, the following parameters will be adjusted
  - the maturity range of the public sector purchase programme (“**PSPP**”) will be broadened by decreasing the minimum remaining maturity for eligible securities from two years to one year;
  - purchases of securities under the APP with a yield to maturity below the interest rate on the ECB’s deposit facility will be permitted to the extent necessary. The implementation details will be worked out by the relevant committees; 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.

In June 2018, the ECB announced it would continue its APP until year-end 2018, when it is expected to be concluded, but would scale back the monthly amount of purchases to EUR 15 billion from September 2018 onwards.

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.

2017 was characterised by strong optimism towards global macroeconomic indicators. The most developed economies, namely the United States and Europe, evidenced economic recovery, which in Europe became stronger and more broad-based. As such, and given the partial dissipation of deflationary pressures, the ECB announced a review of its APP, and in June 2018 communicated its termination by the end of the year, with monthly purchased being reduced to EUR 30 billion until September and to 15 billion afterwards. Nevertheless, the ECB always reaffirmed it was ready to act if economic conditions warranted so. During the year, short term interest rates remained at low levels.

Despite the moderate growth for the global economy in the near and medium term, sustainable economic growth continues to be a challenge, especially as the business cycle matures in the Eurozone, including Portugal. Even if central banks are raising rates (as in the case of the United States) or are reducing the size of non-conventional monetary policies, as is the case of the ECB, it is expected that the central banks of the main global economies will maintain neutral to 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 increased risks of protectionism, with the imposition of trade tariffs between some developed economies. Additionally, there is the risk of a potential steeper increase of interest rates in developed countries given the signs of rising wages in some economies.

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 has 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. In March 2017 the United Kingdom formally requested the start of negotiations to exit the European Union. The negotiation of the United Kingdom's exit terms will have to be completed, if no postponement is accepted, until March 2019. Until the terms of the United Kingdom's exit from the European Union are clearer, it is not possible to determine the impact that the United Kingdom's departure from the European Union and/or any related matters may have on the business of the Issuer, including its London branch. 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 2017, BST held approximately EUR 3.2 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 was partly offset by the entry into force of 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 (the “**BRRD**”), with the creation of a Bank Resolution Fund). 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 46.1 per cent. of the Issuer's credit portfolio in 2017. 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 economic environment in the recent past, 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 one of the agencies (Moody's) continues to attribute a rating to the Portuguese Republic below investment grade. In 2016, the Portuguese Republic issued a new ten year benchmark bond, 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 (*Banco de Portugal*), in late December 2015, regarding the transfer back to Banco Espírito Santo, S.A. (“**BES**”) from Novo Banco, S.A. (“**Novo Banco**”) 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 which lasted for most of 2016. In the first quarter of 2017, under its recapitalisation plan, Caixa Geral de Depósitos, S.A. issued a deeply subordinated bond, in the amount of EUR 500 million, reopening the unsecured debt market for 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 with 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 recovery and resolution measures on the Issuer’s activity**

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, as amended by Law 66/2015 of 6 July 2015 (“**Law 23-A/2015**”) to transpose the BRRD.

The measures set out in the Credit Institutions General Regime aim at harmonising the resolution procedures for the recovery or resolution of institutions by providing the resolution authority with tools designed to prevent a failure or to mitigate its adverse effects.

The Credit Institutions General Regime contains three stages of intervention by the resolution authority:

- Preparation and planning, including, drawing up and submitting recovery plans by the credit institutions to the competent authority, which shall contain the measures to be taken for restoring its financial condition and drawing up a resolution plan for each credit institution or group;
- Early intervention, in case a credit institution breaches or is likely to breach the legal and regulatory requirements applicable to its activity, in which case the resolution authority has the power to, namely, limit or modify exposure to risk, require additional information, define restrictions or prohibitions on certain activities and changes to group structures, restrict or prohibit the distribution of dividends to shareholders or holders of tier 1 capital instruments and replace managers and directors;
- Resolution measures, consisting of: the disposal of all or part of the business of an institution to one or more financial institutions (sale of business tool); disposal of all or part of the business of an institution to one or more bridge banks (bridge institution tool); segregation of whole or part of the business of an institution and its subsequent transfer to asset management vehicles (asset separation tool), to apply jointly with any other resolution measure; write-down or conversion of any obligations of an institution, save for certain excluded liabilities, 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 (bail-in tool).

The implementation of the resolution measures must pursue any of the following objectives:

- Ensure the continuity of essential financial services;
- Prevent serious consequences to financial stability;
- Safeguard public treasury and taxpayers’ interests by minimising the use of public funds;
- Safeguard depositors and investors' confidence; or
- Protect the funds and assets held for and on behalf of clients and the related investment services.

For the purposes of applying resolution measures, an institution is considered to be failing or likely to fail when, in the near future:

- The institution is, or is likely to be, in breach of its requirements for maintaining its licence;
- The institution's assets have, or are likely to become, lower than its liabilities;
- The institution is, or is likely to be, unable to pay its debt as they fall due; or
- Extraordinary public financial support is required.

Upon the entry into force of Regulation (EU) no. 806/2014, 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 ("**SRM Regulation**"), the Bank of Portugal powers as resolution authority in relation to certain credit institutions, including the Issuer, were transferred to the resolution authority within the Banking Union established by the SRM Regulation - the "**Single Resolution Board**".

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. These actions may have a direct effect on shareholders and on the BST Group's expected returns and additionally may have an indirect impact through changes to such institutions' business activities.

Following the decision of the Bank of Portugal on 3 August 2014 to apply a resolution measure to BES, most of its business was transferred to a bridge bank, 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 (the "**Portuguese Resolution Fund**"), funded by payments of contributions due by the institutions participating in the Portuguese 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 Portuguese 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 Portuguese 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 Portuguese Resolution Fund and EUR 700 million corresponds to a banking syndicated loan made to the Portuguese Resolution Fund, with the contribution of each credit institution depending on various factors, including their size. As of 31 December 2016, BST financed a portion of EUR 116.2 million of such syndicated loan, which corresponds to 16.6 per cent. thereof.

On 21 March 2017, the Portuguese Resolution Fund announced the conclusion of certain amendments to the EUR 3.9 billion loan granted by the Portuguese State to the Portuguese Resolution Fund, through an amendment agreement. Such amendments correspond to the following: (i) extension of the maturity dates of the loans to 31 December 2046, on which date the Portuguese Resolution Fund is required to fully disburse the principal amount of the loans; (ii) further adjustments to the maturity dates of the loans may be agreed between the parties, to the extent these are required to ensure that the Portuguese Resolution Fund is able to perform its payment obligations pertaining to such loans funded solely by proceeds arising from its regular revenues; (iii) the loans shall rank *pari passu* without any preference among themselves; (iv) the Portuguese Resolution Fund has undertaken that, before the full payment of any amounts due and payable in respect of the loans, no such payments of principal or interest pertaining to any other loans obtained after 31 December 2016 to fund any contingent liabilities arising in connection with the resolution measures applied to BES and Banif – Banco Internacional do Funchal, S.A. (“**Banif**”) may be made.

The periodic contributions to the Portuguese 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 2018, pursuant to the instruction (*Instrução*) 20/2017 issued by the Bank of Portugal, the rate has been set up at 0.0459 per cent.

On 20 February 2017, the Bank of Portugal announced that Lone Star has been selected for the final stage of exclusive negotiations with a view to agreeing the final terms and conditions for the acquisition of Novo Banco (the relevant announcement may be consulted at [www.bportugal.pt](http://www.bportugal.pt)). On 31 March 2017, the Bank of Portugal announced that a share purchase and subscription agreement relating to the share capital of Novo Banco was entered into between the Portuguese Resolution Fund and Lone Star. On 18 October 2017, the Bank of Portugal and the Portuguese Resolution Fund concluded the sale of Novo Banco to Nani Holdings, SGPS, S.A., a 100 per cent. subsidiary of LSF Nani Investments S.à.r.l. (Luxembourg), which is owned by several funds belonging to the Lone Star group, with a share capital increase of EUR 750 million fully subscribed by Nani Holdings, SGPS, S.A., which will be followed by a further share capital increase of EUR 250 million by the end of 2017. As at the date of this Base Prospectus, Nani Holdings, SGPS, S.A. holds 75 per cent. of Novo Banco’s share capital and the Portuguese Resolution Fund holds 25 per cent. of Novo Banco’s share capital. The Portuguese Resolution Fund remains responsible for its obligations arising from the provision of financial support relating to the implementation of the resolution measures determined by the Bank of Portugal (namely those arising from loans granted to the Portuguese Resolution Fund in the amounts above mentioned), using its own resources available for that purpose, obtained mainly through contributions received from the banking sector and contributions of the participating institutions in the Portuguese Resolution Fund.

According to the information contained in the statement of Bank of Portugal regarding the sale of Novo Banco, which may be consulted at [www.bportugal.pt](http://www.bportugal.pt), and in the European Commission’s press release, which may be consulted at [www.europa.eu](http://www.europa.eu), the agreed conditions for the sale of Novo

Banco include a contingent capital mechanism, under which the Portuguese Resolution Fund undertakes to make capital injections of up to EUR 3.89 billion in case certain cumulative conditions materialise related with: (i) the performance of an identified set of assets of Novo Banco, and (ii) the evolution of Novo Banco's capitalisation levels.

The Portuguese Resolution Fund has recently also disclosed on its website ([www.fundoderesolucao.pt](http://www.fundoderesolucao.pt)) its annual management report and accounts for the financial year ended on 31 December 2017 ("**Resolution Fund 2017 Accounts**"), from which the information below has been summarised or extracted.

By law, the financing of any eventual losses incurred by the Portuguese Resolution Fund in the pursuit of its statutory purpose is of the exclusive responsibility of the participating institutions. On 31 December 2017, these losses amounted to EUR 5,104 million, corresponding to the Portuguese Resolution Fund's own negative resources, according to the last publicly disclosed information in this regard (see pages 13, 14 and 19 of the Resolution Fund's 2017 Accounts with respect to the Portuguese Resolution Fund's activity, and pages 33, 34 and 35 with respect to its financial statements of the same document). The conditions which led to such reduction of the own resources of the Resolution Fund in 2017 are essentially the following: (1) contributions received by the Resolution Fund from the banking sector in the total amount of EUR 219 million; (2) the financial effects arising of the resolution measures which the net total amount allocated for 2017 ascended to EUR -459 million, resulting from the combined effect of the provision of EUR 792 million related to the contingent funding mechanism concluded with Novo Banco and the valuation in EUR 333 million of the holding after completion of the sale of said bank; (3) the costs related to the funding of the Resolution Fund with a total value of EUR 104 million which is reflected in the net result for the financial year (see page 14 of the Resolution Fund's 2017 Accounts).

It should further be noted that, as at 31 December 2017, the Portuguese Resolution Fund was involved in several legal proceedings, either as a defendant or as an interested counterparty. In particular, the resolution measure applied to BES, in the form of a transfer of the majority of its activity and assets to a bridge bank (Novo Banco), can be identified as the main underlying cause of the increasing number of judicial lawsuits against the Portuguese Resolution Fund. It should be noted that lawsuits regarding the application of resolution measures are legally unprecedented, which makes it impossible to apply related case-law in their assessment and to estimate the possible associated contingent financial effect (see page 50, note 25 of the Resolution Fund 2017 Accounts).

On 30 March 2016, the Memorandum of Understanding on the Dialogue Procedure with Unqualified Investors which are Holders of Commercial Paper of the Espírito Santo Group (*Memorando de Entendimento sobre um Procedimento de Diálogo com os Investidores não Qualificados Titulares de Papel Comercial do Grupo Espírito Santo*) was signed between the Portuguese Government, the Bank of Portugal, the Portuguese Securities Market Commission (the "CMVM"), BES and AIPEC - *Associação de Indignados e Enganados do Papel Comercial*. The work developed in the context of this dialogue procedure resulted in a solution framework which

implies the express renunciation, by those investors in agreement, of all rights, claims and legal proceedings against the Portuguese Resolution Fund, and against Novo Banco S.A. and its future shareholders. This solution is currently at the final stage of implementation. All regulatory approvals were granted, the funding of the first tranche was ensured and the granting of the State guarantee was authorised bearing in mind the following payment instalments. This solution will contribute to reduce possible legal contingencies that may affect the Resolution Fund as it is expected a high level of acceptance by the investors (see page 51, note 25.2 of the Resolution Fund 2017 Accounts).

In accordance with the law, the Portuguese Resolution Fund shall pay compensation to the shareholders and to the creditors of a credit institution subject to a resolution measure in the event that it is determined that they have borne losses superior to those they would have borne had the resolution measure not been applied and had the credit institution subject to resolution entered into liquidation at the moment this measure was applied. Furthermore, in accordance with the law, the Bank of Portugal has designated an independent entity for the purposes of carrying out an estimate of the credit recovery levels of each class of creditors of BES in the hypothetical scenario of liquidation on 3 August 2014, had the resolution measure not been applied. As announced in a Bank of Portugal statement published on 6 July 2016, given the independent character of the designated entity, the contents of its report and respective conclusions do not necessarily correspond to the opinion or position of the Bank of Portugal. This statement also presents a summary of the results of the independent estimate carried out by the designated entity, and clarifies that BES' secured and privileged credits were transferred to Novo Banco under the terms of the resolution measure established by the Bank of Portugal. The right to compensation by the Portuguese Resolution Fund, with respect to the ordinary creditors whose credits were not transferred to Novo Banco, will only be decided at the close of BES' process of liquidation. Until then, it will still be necessary to further clarify a complex set of legal and operational questions, notably concerning entitlement to the right to compensation by the Portuguese Resolution Fund. As such and all things considered, it is impossible for the time being to estimate the compensation amount to be paid upon termination of the BES liquidation. The Portuguese Resolution Fund considers that there are still insufficient elements to assess the existence and/or value of this potential liability, both in terms of the resolution measure applied to BES and the resolution measure applied to Banif (see pages 51 and 52, note 26.2 of the Resolution Fund 2017 Accounts).

On 29 December 2015, the Bank of Portugal clarified that the Portuguese Resolution Fund is responsible for neutralising, by way of payment of compensation to Novo Banco, any possible negative effects of future decisions arising from the resolution procedure, and which result in liabilities or contingencies for the bank. In the context of the sale of Novo Banco completed on 18 October 2017 the agreements include specific clauses that have an effect similar to the one from the resolution of the Board of Directors of the Bank of Portugal, now with contractual source, wherefore the contingent liabilities framework remains. Considering the lack of judicial precedent in this regard, it is impossible to reliably estimate the potential contingent financial effect (see page 52, note 26.3 of the Resolution Fund 2017 Accounts).

Under the terms of the resolution of the Board of Directors of the Bank of Portugal dated 20 December 2015 regarding the application of resolution measures to Banif, the Portuguese Resolution Fund has provided a guarantee in the amount of EUR 746 million over the bonds issued by Oitante S.A. With the aim of ensuring that the Fund will have the necessary financial resources at its disposal for the enforcement of this guarantee at the maturity date, in the event that Oitante, the principal debtor, defaults on its obligations, the Portuguese State has counter-guaranteed the abovementioned bond issue. Until 31 December 2017, Oitante S.A. carried out early partial redemptions in the total amount of EUR 180,411.4 thousand, thereby reducing the amount of the guarantee provided by the Portuguese Resolution Fund to EUR 565,588.6 thousand (see page 51, note 26.1 of the Resolution Fund 2017 Accounts).

The outcome of the resolution process of BES brings out certain contingent obligations to the Resolution Fund, which may lead to future disbursements of funds by the Resolution Fund. Based on the information available at the date, except for the amount recorded in provisions, the materialisation of these obligations is not assured and is dependant on certain conditions being fulfilled. Equally, the timing and amount for said disbursement, if any, cannot be anticipated. However, payments to be made by the Resolution Fund over the contingent funding mechanism are limited to the maximum amount of EUR 3,890,000,000 (see pages 52 and 53, note 26.4 of the Resolution Fund 2017 Accounts).

At the date of the approval of the Resolution Fund 2016 Accounts, the recognition and payment of costs by the Portuguese Resolution Fund with respect to Novo Banco's sale process was under clarification. The outcome of said endeavours led to the conclusion that the Resolution Fund should not undertake said expenses (see page 53, note 26.5 of the Resolution Fund 2017 Accounts).

In the event that the proceeds are insufficient, the Portuguese Resolution Fund will use its own receipts to finance such shortage. Funds available to the Portuguese Resolution Fund arise from the following sources: (i) contributions from the banking sector; (ii) initial, periodic and special contributions from institutions participating in the Portuguese Resolution Fund and collected before the implementation of the BRRD in Portugal; (iii) initial, periodic and special contributions from institutions participating in the Portuguese Resolution Fund collected pursuant to Decree-law no. 24/2013, of 19 February 2013, and due under the transitional regime provided for in Law no. 23-A/2015, of 26 March 2015, as amended, including by Law 66/2015, of 6 July (aimed at enabling compliance with the obligations undertaken by the Portuguese Resolution Fund in the context of the applications of resolution measures applied before 31 December 2014); (iv) initial, periodic and special contributions from the investment firms not subject to the ECB's supervision, branches of credit institutions of third countries, entities relevant for the payments system not subject to the ECB's supervision; (v) proceeds derived from investment applications and from the Portuguese Resolution Fund activity; (vi) donations; (vii) loans; and (viii) other proceeds legally or contractually allocated to the Portuguese Resolution Fund.

Since the implementation of the Single Resolution Mechanism, the initial and periodic contributions of the participating institutions under the scope of the SRM Regulation have been transferred to the resolution fund set up by the SRM Regulation (the “**Single Resolution Fund**”), and contributions raised from such institutions after 1 January 2016 shall be transferred by the Bank of Portugal to the Single Resolution Fund. Given that the Issuer is an institution subject to the scope of the SRM Regulation, it is required to contribute to the Single Resolution Fund in accordance with the SRM Regulation and its implementing regulations. Any contributions by the Issuer to the Portuguese Resolution Fund after 1 January 2016 shall be made only for the purposes of funding the costs of any resolution measures applied before 31 December 2014.

If a resolution measure is applied to any other institution established in Portugal falling within the scope of the SRM Regulation and the resources then available to the Single Resolution Fund are not sufficient to provide the financial assistance required by such resolution measure, the Issuer (and other participating institutions) may be required to make special contributions to the Single Resolution Fund, in an amount determined in accordance with the criteria set out in the SRM Regulation. The amount of such special contributions shall not in any event exceed three times the amount of the annual contributions to the Single Resolution Fund then required from the participating institutions. The annual contribution made by the Issuer to the Single Resolution Fund in 2016 totalled EUR 15 million. If payment of such special contributions affects the financial position of a participating institution, the board of the Single Resolution Mechanism may agree to the suspension of such payment in respect of such participating institution for a period of up to 180 days, extendable at the request of the relevant participation institution.

In January 2013, the recapitalisation of 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 (Oitante, S.A.) set up in the context of the application by the Bank of Portugal of the aforementioned resolution measure.

The final impact on BST of the resolution measures applied to BES and/or Banif or of any additional resolution measure to be applied cannot be anticipated.

**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 2 July 2014, Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 providing for the establishment of deposit guarantee schemes (the “**recast DGSD**”) and which introduced harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in pay-out deadlines, harmonisation of eligibility categories (including an extension of scope to cover deposits by most companies regardless of size) and new disclosure requirements throughout the EU, entered into force. The recast DGSD was transposed in Portugal through Law no. 23-A/2015, of 26 March 2015, amended by Law no. 66/2015, of 6 July 2015.

A proposal for a regulation of the European Parliament and of the Council amending the Regulation (EU) No. 806/2014 in order to establish a European Deposit Insurance Scheme is currently under discussion at an EU level.

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 2017) are CGD, 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 European Banking Authority ("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 of 12 September 2003,

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 set of Recommendations on capital preservation, according to which banks had to keep a capital amount (in Euros) necessary to comply with the capital requirements as set out in the previous Recommendation at 30 June 2012. The possibility to maintain a lower capital level was also taken into account, provided that a 7.0 per cent. Common Equity Tier 1 ratio (“**CET1**”) is fulfilled according to the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (“**Directive 2013/36/EU**” or “**CRD IV**”).

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 in relation to the credit institutions considered significant which operate in the EU (“**Single Supervisory Mechanism**” (as established by Council Regulation (EU) No 1024/2013, of 15 October 2013)). The assessment began in November 2013 and lasted for 12 months. The reference ratio value for such assessment was 8 per cent. CET1, according to the Directive 2013/36/EU definitions taking into account transitional arrangements.

As of 31 December 2017, BST had a Tier I Capital and Core Capital of 14.2 per cent. and 14.3 per cent. respectively, which compares with 17.3 per cent. and 17.3 per cent. respectively in the equivalent period of 2016. 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**” or “**CRR**” and together with the CRD IV, “**CRD IV/CRR**”), in place since 1 January 2014 and implied 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. The continued implementation of these measures may have a significant impact in the Issuer’s capital and in its assets and liabilities management.

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 has decided that the capital conservation buffer would be phased-in. As of January 2017, the buffer is set at 1.25 per cent., as of 1 January 2018 it was 1.875 per cent. and as of 1 January 2019 it will be 2.5 per cent. Additionally, 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’s last review of the countercyclical buffer was on 1 April 2018 to confirm the 0 per cent. rate and this decision will be reviewed on a quarterly basis.

Further to a notification made to the ECB, the Bank of Portugal, has decided to impose capital buffers on credit institutions identified as systemically important institutions (“**O-SIIs**”). For that purpose, the Bank of Portugal published on 30 November 2017 a table with the names of the banking groups identified as O-SIIs and the respective capital buffers, as a percentage of the total risk weighted assets. These buffers shall consist of CET1 capital on a consolidated basis and shall be applicable in phases from 1 January 2018 to 1 January 2019 and thereafter. In the case of the

Issuer, the buffer applicable to its holding company (Santander Totta, SGPS, S.A.) is 0.125 per cent. since 1 January 2018, 0.25 per cent. from January 2019, 0.375 per cent from January 2020 and 0.50 per cent from January 2021 onwards, unless there are any further amendments by the Bank of Portugal. Simultaneously, the Bank of Portugal also published a more detailed document on the methodology for identification and calibration of the O-SIIs buffer.

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 funds of the financial institution.

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 157/2014 that implemented Directive 2013/36/EU, banks shall comply with:

- a minimum CET1 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 CET1 ratio of 7.0 per cent. calculated with transitional arrangements and to be complied from 1 January 2014 onwards. Regulatory notice (*Aviso*) 6/2013 has in the meantime been revoked and replaced by the regulatory notice (*Aviso*) 10/2017 issued by the Bank of Portugal that entered into force in 1 January 2018 and regulates the exercise of a range of options available within the prudential framework established by Regulation (EU) No 575/2013 and Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 following the publication of Guideline (EU) 2017/697 (ECB / 2017/9) of 4 April 2017 and Recommendation ECB / 2017/10 of 4 April 2017, both of the European Central Bank.

On 23 November 2016, the European Commission published legislative proposals (the “**Proposals**”) for amendments to the CRR, the CRD IV, the BRRD and the SRM Regulation and proposed an amending directive to facilitate the creation of a new asset class of “non-preferred” senior debt. This directive (Directive 2017/2399 of the European Parliament and of the Council) is in place and Member States have until 29 December 2018 to transpose it. The Proposals cover

multiple areas, including, for instance, the definitions of capital, the Pillar 2 framework, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macro-prudential tools, a new category of “non-preferred” senior debt, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above.

Such Proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. Until the Proposals are in final form and the directive has been transposed, it is uncertain how the Proposals will affect the Issuer.

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 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. If any assessment carried out by the ECB identifies risks or elements of risk that are not adequately covered by capital requirements, the ECB can determine the appropriate level of own funds under CRD IV and assess whether additional own funds shall be required.

Further to the above, recent developments in the banking market suggests that even stricter rules may be applied by a new framework (“**Basel IV**”), which would follow Basel III and would require more stringent capital requirements and greater financial disclosure. Basel IV is likely to comprise higher leverage ratios for the banks to meet, more detailed disclosure of reserves and the use of standardised models rather than banks' internal models, for calculation of capital requirements.

The implementation of the above mentioned requirements, ratios and/or any regulatory change may adversely affect the Issuer or the BST Group.

**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 (“**LCR**”) and Net Stable Funding Ratio (“**NSFR**”). The LCR addresses the sufficiency of the high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. As of 2017, financial institutions have been required to maintain in their own portfolio high quality liquidity assets corresponding to 80 per cent. of the net cash outflows in the following 30 days. As of 2018, this requirement will increase to 100 per cent.. The NSFR, to be implemented in 2018, will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution’s assets and activities over one year period.

The LCR of the Issuer, computed in line with the CRD IV standards was 123.1 per cent. at the end of December 2017 (146 per cent. the year before). The Issuer does not yet disclose the NSFR considering that the applicable calculation rules are not fully regulated by the competent regulatory authorities. The minimum LCR applicable as of 1 January 2015 is 60 per cent. and the NSFR should be equal to at least 100 per cent. on an on-going 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 2017, BST had a net exposure to ECB funding of around EUR 2.5 billion (as at 31 December 2016 the corresponding value was below EUR 1.8 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 2017 (including mutual funds) were EUR 37.4 billion, thus lower than loans and advances to credit institutions before impairment and depreciation which amounted to EUR 41.4 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 provisions and other results of EUR 38.2 million in 2017 (EUR 94.9 million in 2016). Deterioration in the economy could reduce the profit margins for BST's banking and financial services businesses (net interest income amounted to EUR 699.4 million in 2017, compared to EUR 734.2 million in 2016) 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 2017, non-performing loans ratio (defined as those in default for more than 90 days) represented 2.9 per cent. of the total credit portfolio and the non-performing loans coverage ratio (defined as those in default for more than 90 days) stood at 146.6 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 or that it will be able to prevent or minimise any cyber-attacks and / or cyber-terrorism. 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.

On 25 May 2018, Regulation (EU) No. 2016/679 (the "**General Data Protection Regulation**") entered into force. Being a regulation, it is directly effective in all Member States without the need for the implementation of additional national legislation. The implementation and compliance with

this regulation (and any additional national legislation passed in the context of the General Data Protection Regulation) is complex and entails significant costs and time, given that the General Data Protection Regulation introduces substantial and ambitious changes. Additionally, non-compliance with the General Data Protection Regulation may cause reputational damages and the application of very significant fines. The final impact on and costs arising for the Issuer from the implementation and compliance with the General Data Protection Regulation cannot be anticipated.

### **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 2016 and 31 December 2017 contain emphases**

The auditors' reports scheduled to the audited consolidated financial statements of BST in respect of the financial years ended 31 December 2016 and 31 December 2017 contain the following emphases:

Financial year ended 31 December 2016

*“According to Note 50 of the notes to the consolidated financial statements, in 2013 Banco Santander Totta, SA (“Bank” or “Banco Santander Totta”) requested to the Commercial Court of London (“London Court”) the judicial declaration of validity regarding a set of interest rate Swap contracts celebrated in previous years between the Bank and some entities within the sector of Portuguese public transportation (“public companies”). By judicial decision as of March 24, 2016, the Court declared the public companies responsibilities in light of these contracts were legal, valid and binding, within conformity of the terms displayed by such contracts, convicting the public companies to pay the due cash-flows until the date of the judicial decision, in addition to the*

*judicial costs paid by the Bank. However, the public companies did not pay the amounts decreed by the Court, appealing to the English Supreme Court, which is as of yet pending a decision. In conformity with the communications made public by the Portuguese Republic and the Bank on April 12, 2017, both parties agreed to end their present and future judicial litigations, whether in Portugal or in the United Kingdom, and confirming that the public companies will fulfill the signed contracts. Regarding this agreement, which is in formalization stage, the Portuguese Republic will ensure (i) the compliance of the sentences applied by the London Court to the public companies, in which it recognizes the validity of those contracts and the professional conduct of the Bank, and (ii) the withdrawal of the pending appeal not yet accepted by the English Supreme Court, and the Bank shall finance the Portuguese Republic in an amount of Euro 2,3 billion with a maturity of 15 years. In this context, it is the understanding of the Board of Directors at this date, based on the terms recently negotiated with the Portuguese Republic, that the risk of financial charges for the Bank are remote, and it will not be necessary the recognition of provisions in their consolidated financial statements as at December 31, 2016.”*

The auditors’ reports scheduled to the audited consolidated financial statements of BST in respect of the financial years ended 31 December 2016 and 31 December 2017 contain the following additional emphases:

Financial year ended 31 December 2016

*“As detailed on Note 1.4 of the notes to the consolidated financial statements, on December 20, 2015, the Board of Directors of Bank of Portugal (BdP) deliberated to approve, under articles 145º-M and following and 145º-S and following, which are in Regime Geral das Instituições de Crédito e Sociedades Financeiras (“RGICSF”), the application of a resolution measure in the form of partial sale of activity, transferring to Bank Santander Totta, S.A. all rights and obligations related with assets, liabilities, off-balance elements and assets under management of Banif – Banco Internacional do Funchal, SA (“Banif”), identified in annex 3 of referred resolution (“transaction”). For the preparation of the consolidated financial statements of the Group on December 31, 2016, the Board of Directors took in consideration the above mentioned resolution, as well as the understandings and additional information, which were communicated by Bank of Portugal and reflected on their deliberation on January 4, 2017. To this regard, it is meaningful to refer that at this date, a group of decisions are pending to be issued by the fiscal authorities regarding the requests made by the Bank, in conformity with no. 6 - b) of article 145º-AU, in concrete: (i) the application of the fiscal neutrality regime for the operation of asset entries as in article 74º of the Corporate Income Tax Code (“IRC”), having the Bank only applied that regime to the badwill registered in 2015 which resulted from the acquisition of all patrimonial elements included in the perimeter of the transaction; (ii) the utilization of the deferred taxes assets transferred within the transaction related to reportable fiscal losses, in the amount of Euro 272 million, not recognized by the Group in its consolidated financial statements, in order to compensate future taxed profits of the Group, in terms and conditions of article no. 52 of IRC Code, and (iii) the exemption of municipal taxes for real estate transactions, stamp tax, emoluments and other legal charges regarding the execution of the transaction.”*

Financial year ended 31 December 2017

*“On 20 December 2015, the Board of Directors of Bank of Portugal (BdP) deliberated to approve, under articles 145°-M and following and 145°-S and following, of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (“RGICSF”), the application of a resolution measure in the form of partial sale of activity, transferring to Bank Santander Totta, S.A. all rights and obligations related with assets, liabilities, off-balance elements and assets under management of Banif – Banco Internacional do Funchal, SA (“Banif”), identified in annex 3 of referred resolution (“transaction”). For the preparation of the consolidated financial statements of the Group on 31 December 2017, the Board of Directors took in consideration the above mentioned resolution, as well as the understandings and additional information, which were communicated by Bank of Portugal and reflected on their deliberation on 4 January 2017. In this respect, as mentioned in Notes 1.3 n) and 17 of the Annex to the consolidated financial statements, the Bank did not recognize in its consolidated financial statements the deferred tax asset relating to tax losses of Banif transferred to the Bank under by virtue of the fact that up to this date the conditions necessary for the recognition of this asset have not been fully assured.”*

During 2017 the Portuguese State and BST reached an agreement to end the legal actions in respect of certain interest rate swap agreements established with Portuguese State owned transportation enterprises, as identified above.

In the context of said agreement, the Portuguese State will ensure that the Portuguese State owned transportation enterprises will comply with the terms of the decisions already taken by the High Court of Justice of London, as referred above, which acknowledged the validity of such swap agreements, and will withdraw the appeals submitted to, but not yet accepted by, the High Court of Justice of London.

BST will withdraw the legal action and the corresponding indemnity request against the Portuguese State and IGCP (the Portuguese Treasury and Debt Management Agency) pending in the Portuguese Courts and will grant a 15-year loan to the Portuguese Republic in the amount of EUR 2.3 billion, under favourable interest rates (compared to the current Portuguese government bonds market levels) and terms and conditions still to be agreed. In accordance with an announcement made by the Ministry of Finance on 12 April 2017, the Portuguese Republic estimates that reaching this agreement will permit it to save around EUR 442 million in interest payments and around EUR 50 million in costs pertaining to the legal actions mentioned above.

In addition, BST, the Autonomous Region of Madeira and the regional public companies came to an understanding that led to the termination of the legal proceedings still pending. According to the terms of the agreement reached, the derivative contracts were restructured following the payment of the flows overdue, with BST having granted a loan to the Autonomous Region of Madeira, which assumed the contractual position of all the derivative contracts with the exception of a regional public company, to which a loan was also granted.

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

The Bank of Portugal has established minimum provisioning requirements that apply 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, such as IFRS 9 or policies, including as a result of choices made by the Issuer, could have a material adverse effect on the results of operations of the Issuer. The adoption of IFRS 9, which will replace IAS39, could change the current accounting treatment that applies to the consolidated financial statements. 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 and has now 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.

*Banking institutions may become legally obligated to reflect negative index rates in the calculation of the loan interest rates in consumer and residential loan agreements*

The Portuguese Parliament has recently approved a law under which banking institutions are obliged to reflect negative index interest rates in the calculation of loan interest rates in consumer and residential loan agreements. Law 32/2018 of 18 July (the “**Negative Interest Rate Law**”), amends Decree-Law 74-A/2017 of 23 June (the “**Residential Loans Law**”), which partially transposed EU Directive 2014/17 of the European Parliament and of the Council of 4 February

2014, on credit agreements for consumers relating to residential immovable property (the “**Residential Loans Directive**”).

The Negative Interest Rate Law establishes that negative index interest rates have to be deducted from the principal amounts of outstanding debts. This law also offers banks the possibility of attributing their clients a credit corresponding to the negative interest rate, which may subsequently be set-off against positive interest rates.

This Negative Rate Law applies to loans which are currently in place, irrespective of specific contractual clauses.

Please note that the Issuer cannot predict how this law will affect future payments to be made by the borrowers in the context of the Mortgage Loans.

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

Interest rates and indices which are deemed to be "benchmarks" (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a "benchmark". Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") was published in the Official Journal of the EU on 29 June 2016 and applies from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the BST) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Covered Bonds linked to or referencing LIBOR or EURIBOR, in particular, if the methodology or other terms of LIBOR or EURIBOR are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of LIBOR or EURIBOR.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks" (including LIBOR or EURIBOR): (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the

"benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to or referencing LIBOR or EURIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any covered Bonds linked to or referencing LIBOR or EURIBOR.

### **Future discontinuance of LIBOR may adversely affect the value of Floating Rate Covered Bonds which reference LIBOR**

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

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

### **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 Organisation for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than 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 Ministerial Order (*Portaria*) no. 563-A/2005, of 28 June 2005, and may be available for consultation at [www.portaldasfinancas.gov.pt](http://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 Ministerial Order (*Portaria*) no. 563-A/2005, of 28 June 2005, will be revoked.

Under Council Directive 2014/107/EU, of 9 December 2014, 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.

The Council Directive 2014/107/EU, of 9 December 2014 regarding the mandatory automatic exchange of information in the field of taxation was transposed into the Portuguese law through the Decree-Law no. 64/2016, of 11 October 2016, as amended. In addition, the information regarding the registration of the financial institutions, and the procedures to comply with the reporting obligations arising from Decree-Law no. 64/2016, of 11 October 2016, which has been amended through Law no. 98/2017, of 24 August and the applicable forms were approved by Ministerial Order (*Portaria*) no. 302-B/2016, of 2 December 2016, Ministerial Order (*Portaria*) no. 302-C/2016, of 2 December 2016, Ministerial Order (*Portaria*) no. 302-D/2016, of 2 December 2016, as amended (including by Ministerial Order no. 255/2017, of 14 August) and Ministerial Order (*Portaria*) no. 302-E/2016, of 2 December 2016.

In any case investors should consult their own tax advisers to obtain a more detailed explanation of this regime and how it may individually affect them.

### **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 may be 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 with respect to payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on 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 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 (including by reason of a substitution of the Issuer).

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.

Portugal signed an IGA with the United States on 6 August 2015 and has implemented through Law no. 82-B/2014, of 31 December 2014 (as amended), the legal framework based on the reciprocal exchange of information with the United States on financial accounts subject to disclosure. The IGA entered into force in 10 August 2016, and through Decree-Law no. 64/2016, of 11 October 2016, amended by Law no. 98/2017, of 24 August 2017, the Portuguese government approved the regulation required to comply with FATCA. Under this legislation, the Issuer is required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities, which, in turn, will report such information to the US Inland Revenue Service. The exchange of information regarding information related to calendar years 2014 and 2015 was due by 10 January 2017. For the following calendar years reporting is due by 31 July of each year comprising the information gathered respecting the previous year.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.

### **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 will be in nominative form (*nominativas*).

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,



address, 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 withholding tax at a rate of 35 per cent.

Furthermore, 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 from time to time) 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 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 the 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 Audit Committee and Pricewaterhousecoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., registered with the CMVM with number 20161485, with registered office at Palácio SottoMayor, Rua Sousa Martins, 1, 3º, 1050-217 Lisbon, Portugal, which has audited the consolidated financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2017 (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.

In accordance with article 149, no. 3 (directly and *ex vi* article 243) of the Portuguese Securities Code, liability of the entities referred to above is excluded if any of such entities proves that the addressee knew or should have known about the inaccuracies in the contents of this Base Prospectus on the date of issue of the contractual declaration or when the respective revocation was still possible. Pursuant to subparagraph b) of article 150, the Issuer is strictly liable (i.e. independently of fault) if any of the members of its Board of Directors, its Audit Committee and Pricewaterhousecoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda. and any other individuals that have certified or, in any other way, verified the accounting documents on which the Base Prospectus is based are held responsible for such information. Further to subparagraph b) of article 243 of the Portuguese Securities Code, the right to compensation based on the aforementioned responsibility statements is to be exercised within six months following the knowledge of an inaccuracy in the contents of the Base Prospectus and ceases, in any case, two years following (i) disclosure of the admission Base Prospectus or (ii) amendment that contains the defective information or forecast.

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.*

<b>Description:</b>	Covered Bonds Programme.
<b>Programme Size:</b>	<p>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.</p> <p>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.</p>
<b>Issuer:</b>	Banco Santander Totta, S.A. (see <i>Description of the Issuer</i> ).
<b>Issuer Legal Entity Identifier (LEI):</b>	549300URJH9VSI58CS32
<b>Arranger:</b>	Morgan Stanley & Co. International plc.
<b>Dealers:</b>	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 10 Harewood Avenue, London NW1 6AA, 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 26 July 2018 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 of 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*.

<b>Terms and Conditions:</b>	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> .
<b>Clearing Systems:</b>	Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg (together the “ <b>Clearing Systems</b> ” and, each, a “ <b>Clearing System</b> ”). See <i>Form of the Covered Bonds and Clearing System</i> .
<b>Form of the Covered Bonds:</b>	The Covered Bonds will be in book-entry form and in nominative 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> .
<b>Transfer of Covered Bonds:</b>	The Covered Bonds may be transferred in accordance with the provisions of the Clearing System or other central securities depository with which the relevant Covered Bond has been deposited. The transferability of the Covered Bonds is not restricted.
<b>Maturities:</b>	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than 2 years or in excess of 50 years. See also <i>Extended Maturity Date</i> .
<b>Issue Price:</b>	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
<b>Events of Default:</b>	Issuer Insolvency. See Condition 9 ( <i>Insolvency Event and Enforcement</i> ) of the Terms and Conditions.
<b>Negative Pledge:</b>	None.

<b>Cross Default:</b>	None.
<b>Guarantor:</b>	None.
<b>Fixed Rate Covered Bonds:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
<b>Floating Rate Covered Bonds:</b>	<p>Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> <li>• on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. (“ISDA”) and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or</li> <li>• on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>• on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.</p>
<b>Zero Coupon Covered Bonds:</b>	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
<b>Redemption:</b>	The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (i) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (other than in specified instalments, if applicable – see <i>The Covered Bonds Law</i> ), or (ii) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (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 as disclosed in English language 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 2016, together with the auditors' reports prepared in connection therewith (available at [www.santandertotta.com](http://www.santandertotta.com) and at [www.cmvm.pt](http://www.cmvm.pt)), including the information set out at the following pages in particular:

Consolidated financial statements	Pages 81 to 86 (out of 262)
Consolidated balance sheets as of 31 December 2016 and 2015	Page 82 (out of 262)
Consolidated statements of income for the years ended 31 December 2016 and 2015	Page 83 (out of 262)
Consolidated statements of other comprehensive income for the years ended 31 December 2016 and 2015	Page 84 (out of 262)
Consolidated statement of changes in shareholder's equity for the years ended 31 December 2016 and 2015	Page 85 (out of 262)
Consolidated statements of cash flows for the years ended 31 December 2016 and 2015	Page 86 (out of 262)
Notes to the consolidated financial statements	Pages 87 to 249 (out of 262)
Legal certification of accounts and audit report	Pages 251 to 262 (out of 262)

- (b) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2017, together with the auditors' reports prepared in connection therewith (available at [www.santandertotta.com](http://www.santandertotta.com) and at [www.cmvm.pt](http://www.cmvm.pt)), including the information set out at the following pages in particular:

Glossary	Pages 116 to 117 (out of 273)
Consolidated financial statements	Pages 120 to 125 (out of 273)
Consolidated balance sheets as of 31 December 2017 and 2016	Page 121 (out of 273)
Consolidated statements of income for the years ended 31 December 2017 and 2016	Page 122 (out of 273)
Consolidated statements of other comprehensive income for the years ended 31 December 2017 and 2016	Page 123 (out of 273)
Consolidated statement of changes in shareholder's equity for the years ended 31 December 2017 and 2016	Page 124 (out of 273)
Consolidated statements of cash flows for the years ended 31 December 2017 and 2016	Page 125 (out of 273)
Notes to the consolidated financial statements	Pages 126 to 257 (out of 273)
Legal certification of accounts and audit report	Pages 258 to 270 (out of 273)

(c) the bylaws (including an English language translation thereof) of the Issuer (available at [https://www.santandertotta.pt/pt\\_PT/pdf/Estatutos\\_BST\\_Ingles.pdf](https://www.santandertotta.pt/pt_PT/pdf/Estatutos_BST_Ingles.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, 29 July 2015, as supplemented, 14 July 2016, as supplemented and 19 July 2017 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. Covered Bonds may be attributed Financial Instrument Short Name ("FISN"), Classification of Financial Instruments ("CFI") code and/or other securities identifier, which will be contained in the Final Terms relating thereto.

#### *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 will be nominative Covered Bonds (*nominativas*).

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 necessarily mean that the Covered Bonds will be recognised as eligible collateral for the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the Euro (the "**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, to TARGET2 payment current accounts held in the payment system of TARGET2 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, 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.

The Paying Agent notifies Interbolsa of the amounts to be paid for payments to be processed in accordance with Interbolsa procedures and regulations. In the case of a partial payment, the amount held in the TARGET 2 current account of the Paying Agent must be apportioned pro-rata between the accounts of the Affiliate Members of 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 [●].

### [PROHIBITION OF SALES TO EEA RETAIL INVESTORS]

*The Covered Bonds are not intended to be offered, sold or otherwise made available to (and should not be offered, sold or otherwise made available to) any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”), (b) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (c) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA might be unlawful under the PRIIPs Regulation.]<sup>1</sup>*

### [MIFID II PRODUCT GOVERNANCE - PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET]

*Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment)*

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<sup>1</sup> Legend to be included on front of the Final Terms if the Covered Bonds potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

*and determining appropriate distribution channels.]<sup>2</sup>”*

## 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 26 July 2018 [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

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<sup>2</sup> Legend do be included on front of the Final Terms, to outline the product approval process of any applicable manufacturer.

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](http://www.cmvm.pt) and [www.santandertotta.com](http://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 26 July 2018 [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 [original date] 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](http://www.cmvm.pt) and [www.santandertotta.com](http://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: | [●]                         |

*(If fungible with an existing Series, details of that*

- Series, including the date on which the Covered Bonds become fungible.)*
2. Specified Currency or Currencies: [●]
    - (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-



- annually/quarterly/other (*specify*)] in arrear]
- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [●] per cent. *per annum* [payable [annually/semi annually/quarterly/other (*specify*)] in arrear]  
(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.)
- (ii) Interest Payment Date(s):
- To Maturity Date: [[●] in each year up to and including the Maturity Date / [other (*specify*)]]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable][[●] in each month up to and including the Extended Maturity Date]/[other (*specify*)]  
(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.)  
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount [(s)]:
- To Maturity Date: [[●] per [●] in nominal amount]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[●] per [●] in nominal amount]  
(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.)
- (iv) Broken Amount:
- To Maturity Date: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate.]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate.]  
(State “Not Applicable” unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.)
- (v) Day Count Fraction
- To Maturity Date: [30/360 or Actual/Actual (ICMA)/Other (*specify*)]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360 or Actual/Actual (ICMA) /Other (*specify*)]  
(State “Not Applicable” unless Extended Maturity

	<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*)  
Nominative form (*nominativas*)

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 ]
23. Prohibition of Sales to EEA Retail Investors [Applicable/Not Applicable]  
*(If the Covered Bonds clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Covered Bonds may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified)*

## 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 fees payable to the Managers/Dealers) 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:	[•]
CFI	[•]/[Not Applicable]
FISN	[•][Not Applicable]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[•]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected above]

## 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 the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) (the “**CMVM**”) – [www.cmvm.pt](http://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 nominative form (*nominativas*) and in the Specified Currency and the Specified Denomination(s), as specified in the applicable Final Terms. 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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 specify 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:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

- (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:

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

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

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

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

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

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

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

The Agent, or where the applicable Final Terms specify 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 specify 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, 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; and
  - (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.

## **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](http://www.cmvm.pt)). Furthermore, any such notice shall be disclosed by any further means required to allow a fast access by all holders of Covered Bonds throughout the 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 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 26 July 2018, as supplemented, prepared in connection with the Programme.

**“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 S.A..

**“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 10 Harewood Avenue, London NW1 6AA, 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.

**“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.

**“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.

**“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 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.

**“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 €7,500,000 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 may contain mortgage credit assets, substitution assets and other eligible assets (including hedging contracts) subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulatory Notices (as defined in *Definitions*).

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

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, 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 10 Harewood Avenue, London NW1 6AA, 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 with 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. 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 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 and is subject to the Portuguese Companies Code (approved by Decree-Law no. 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 the 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 or governmental sources of information, 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 2017 the Issuer had a domestic network of 635 branches (compared to 608 in 31 December 2016) 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.

The Issuer also has a long-standing strategy of targeting the university market. It serves this market with branches located either within or near university campuses. In lower traffic sites, the Issuer also has small kiosks which serve its customers with limited services and shorter opening hours.

## **Economic and Financial Information in 2017**

### **Consolidated Activity**

#### **Introduction**

For the year ending 31 December 2017, BST had a consolidated net income attributable to the shareholders of BST of EUR 421.2 million, an increase of 10.8 per cent. compared with EUR 380 million registered in the year ending 31 December 2016.

The credit at risk ratio stood at 5.1 per cent (5.6 per cent. at the end of the previous year), with an 82.1 per cent. coverage (89.4 per cent. in 2016).

Customers' resources amounted to EUR 37.4 billion as at 31 December 2017 (considering balance sheet and off-balance sheet resources), a 14.3 per cent. increase relative to 31 December 2016, with deposits evolving 12.7 per cent. and off balance sheet resources 25.4 per cent. reflecting the diversification policy of customers' resources.

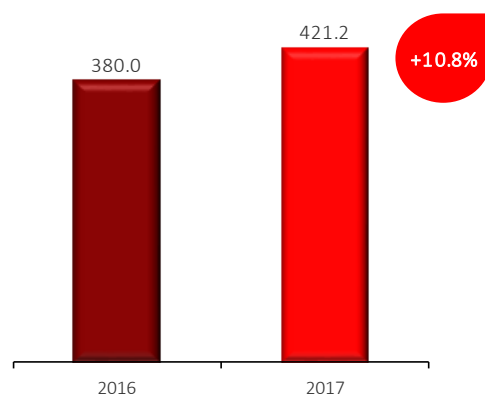
The loan-to-deposit ratio, measured by the proportion of net credit in deposits, increased to 120.4 per cent., as at 31 December 2017, compared to 108.5 per cent. in 2016. This evolution derived from the increase in the portfolio of loans granted to customers to an amount in excess of customers' deposits.

The CET1 ratio, in line with the CRD IV/CRR rules applicable in 2017, reached 14.3 per cent. and was set at 14.2 per cent. on a fully implemented basis, compared to 17.3 per cent. and 16.9 per cent. in 2016.

Net financing by the Eurosystem stood at EUR 2.5 billion in 2017, compared to EUR 1.8 billion in 2016. The portfolio of credits eligible as collateral in financing operations with the ECB amounted to a total of EUR 12 billion as at 31 December 2017.

## CONSOLIDATED NET INCOME

million euro



## Profit & Loss Account

CONSOLIDATED INCOME STATEMENTS (million euro)	2017	2016	Var.
<b>Net interest income</b>	<b>699.4</b>	<b>734.2</b>	<b>-4.7%</b>
Income from equity instruments	2.9	4.2	-30.6%
Net fees	326.3	303.3	+7.6%
Other income	(14.2)	0.6	-2675.1%
<b>Commercial revenue</b>	<b>1,014.4</b>	<b>1,042.2</b>	<b>-2.7%</b>
Gain/losses on financial transactions	118.9	131.9	-9.9%
<b>Net income from banking activities</b>	<b>1,133.3</b>	<b>1,174.2</b>	<b>-3.5%</b>
Operating costs*	(522.3)	(565.0)	-7.6%
Staff Costs*	(308.7)	(312.7)	-1.3%
General Administrative Costs	(176.5)	(216.2)	-18.4%
Depreciation in the year	(37.1)	(36.2)	+2.5%
<b>Net operating Income</b>	<b>611.0</b>	<b>609.2</b>	<b>+0.3%</b>
Impairment, net provisions and other results	(38.2)	(94.9)	-59.7%
Result from associates and other	6.3	13.8	-54.6%
<b>Income before taxes and non-controlling interests</b>	<b>579.1</b>	<b>528.1</b>	<b>+9.7%</b>
Taxes	(157.9)	(148.1)	+6.7%
Non-controlling interests	0.0	0.0	>200%
<b>Consolidated net income attributable to the BST shareholders</b>	<b>421.2</b>	<b>380.0</b>	<b>+10.8%</b>

\*recurrent

Net interest income amounted to EUR 699.4 million at the end of 2017, a 4.7 per cent. decrease when compared to the preceding year, resulting from the lesser weight of the portfolio of sovereign debt in the Bank's accounts, partly set-off by the reduction in financing costs, namely deposits' remuneration rates (averaging near to zero) and of the issued debt.

Net fees of the banking business amounted to EUR 326.3 million, compared to the EUR 303.3 million recorded in the homologous period, registering a 7.6 per cent. increase, which was favourably influenced by the evolution shown in management commissions and maintenance of accounts, mutual funds and insurance. This positive development resulted from greater customer loyalty, digitalisation and customer transactionality, from the favourable evolution of business dynamics, namely the volume of off balance sheet resources, and from the adaptation of the price schedule to the value of the services provided by the Bank.

Other operating results, amounting to EUR -14.2 million, mainly comprised the Bank's obligatory contribution to the Resolution Fund.

Commercial revenue amounted to EUR 1.014 billion, a 2.7 per cent. year on year decrease.

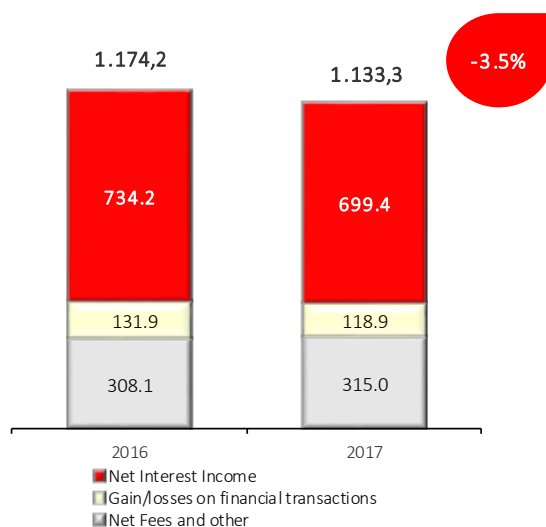
Gains/losses on financial transactions amounted EUR 118.9 million, a 9.9 per cent. decrease relative to those shown in the previous year, outcome of the decrease in revenue from the sale of the sovereign debt portfolio.

Net income from banking activities amounted to EUR 1.133 billion, a 3.5 per cent. reduction as compared to the EUR 1.174 billion recorded in the homologous period, mainly reflecting the decrease in net interest income and in gains/losses on financial operations, partially set-off by the positive contribution of net fees.



## NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs amounted to EUR 522.3 million, showing a 7.6 per cent. decrease compared to the EUR 565 million obtained in the previous year. Staff costs decreased by 1.3 per cent. and general administrative costs decreased 18.4 per cent. year on year, due to the optimisation of the organisational structure, which derived from the resizing of the distribution network, adapted to current business, and to the savings obtained in external supplies and services. Depreciation in the year increased 2.5 per cent. in the last year.

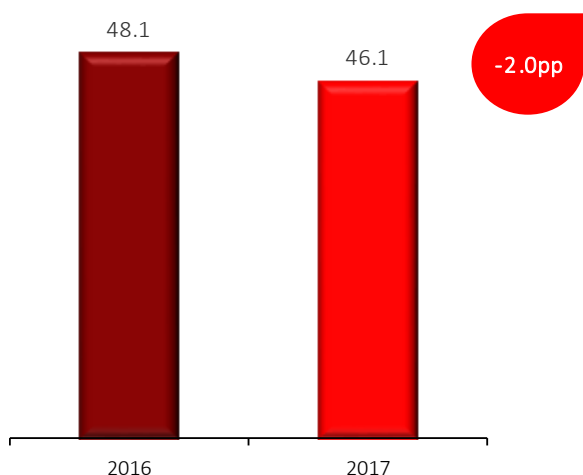
OPERATING COSTS* (million euro)	2017	2016	Var.
Staff costs*	(308.7)	(312.7)	-1.3%
Other administrative costs	(176.5)	(216.2)	-18.4%
Depreciation in the year	(37.1)	(36.2)	+2.5%
<b>Operating costs</b>	<b>(522.3)</b>	<b>(565.0)</b>	<b>-7.6%</b>
<b>Efficiency ratio</b>	<b>46.1%</b>	<b>48.1%</b>	<b>-2.0 p.p.</b>

\*recurrent

The evolution in revenue and expenses resulted in a 46.1 per cent. efficiency ratio, compared to the 48.1 per cent. obtained in homologous period, positively influenced by cost containment.

## EFFICIENCY RATIO

%



Net operating income amounted to EUR 611 million, a 0.3 per cent. year on year increase.

Impairments, net provisions and other results amounted to EUR 38.2 million, as compared with EUR 94.9 million in the homologous period, with lower provisions related with credit and assets received in lieu of payment, following the improvement in Portugal's economic conditions and the stabilisation of entries into default, and due to the conservative criteria in the granting of loans.

Income before taxes and non-controlling interests amounted to EUR 579.1 million, a 9.7 per cent. increase over the EUR 528.1 million obtained in 2016.

Taxes amounted to EUR 157.9 million (EUR 148.1 million in 2016), of which EUR 21.6 million are in respect of the special contribution to the banking sector.

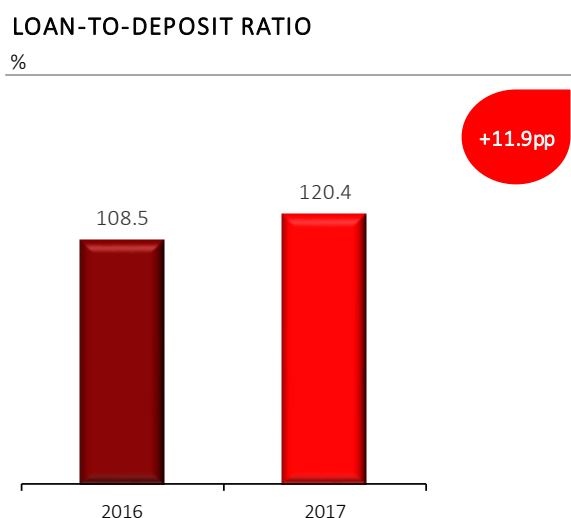
Consolidated net income attributable to the shareholders of BST amounted to EUR 421.2 million, a 10.8 per cent. year on year increase.

### Balance Sheet and Activity

At the end of 2017, business volume amounted to a total of EUR 78.8 billion, a 19.7 per cent. increase as compared with the value recorded in 2016. Loans and advances granted to customers increased by 24.9 per cent. and customers' resources increased by 14.3 per cent..

<b>BUSINESS VOLUME</b> (million euro)	2017	2016	Var.
<b>Business Volume</b>	<b>78,752</b>	<b>65,806</b>	<b>+19.7%</b>
Loans and advances to customers	41,374	33,115	+24.9%
Customers' Resources	37,378	32,691	+14.3%

The loan-to-deposit ratio stood at 120.4 per cent. in 2017, increasing by 11.9 per cent. as compared to the 108.5 per cent. recorded in 2016.



The total gross loans and advances to customers totalled EUR 41.4 billion at the end of 2017, representing a 24.9 per cent. increase relative to December 2016. This evolution derived not just from the incorporation of the portfolio of the former Banco Popular Portugal S.A. amounting to EUR 6.1 billion, but also from the dynamics of commercial activity in the contracting of new loans to companies and private customers, which resulted in a continuous improvement in new production market shares.

At 31 December 2017, mortgage loans grew by 12.1 per cent. and consumer credit by 8.2 per cent., as compared to the values shown one year earlier. In turn, loans to corporates registered a 45.3 per cent. positive variation relative to the homologous period.

The incorporation of the loan portfolio of the former Banco Popular Portugal S.A. led to a more balanced credit structure, with an increase in the relative weight of the corporate segment. Mortgage loans accounted for 46 per cent., compared to 51 per cent. one year earlier, and loans to corporates increased to 46 per cent. of total credit granted in 2017, as compared to 40 per cent., in the homologous period.

<b>LOANS</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Loans and advances to customers (gross)</b>	<b>41,374</b>	<b>33,115</b>	<b>+24.9%</b>
<i>of which</i>			
Loans to individuals	21,437	19,021	+12.7%
<i>of which</i>			
Mortgage	19,091	17,032	+12.1%
Consumer	1,619	1,496	+8.2%
Loans to corporates	19,195	13,215	+45.3%

At the end of 2017, the quality of the loan portfolio measured by the proportion of credit at risk to total credit, reckoned in line with the criteria defined by the Bank of Portugal, reached 5.1 per cent., equivalent to an improvement of 0.5 percentage points, as compared to 5.6 per cent. obtained on the same date in 2016, with the corresponding coverage rate of credit at risk due to impairments standing at 82.1 per cent. (89.4 per cent. in the homologous period).

The Non-Performing Exposure ratio, in line with the definition of the European Banking Authority (EBA), stood at 5.7 per cent., a 0.6 percentage points. year on year increase, consequent to the incorporation of the portfolio of the former Banco Popular Portugal, whilst the respective coverage attained 55.4 per cent.

Cost of credit, measured by the relation between provisions for credit and the average loan portfolio continued its descending pathway, standing at 0.11 per cent., compared to 0.13 per cent. in 2016.

<b>CREDIT RISK RATIOS</b>	<b>2017</b>	<b>2016</b>	<b>Var.</b>
Non performing loans ratio (+90 days)	2.9%	3.7%	-0.8 p.p.
Non performing loans and doubtful loans ratio	3.7%	3.6%	+0.1 p.p.
Credit at risk ratio	5.1%	5.6%	-0.5 p.p.
Non-Performing Exposure Ratio	5.7%	5.1%	+0.6 p.p.
Restructured loans / Total loans	7.6%	8.6%	-1.0 p.p.
Restructured loans not included in credit at risk / Total loans	4.6%	6.5%	-1.9 p.p.
Cost of credit	0.11%	0.13%	-0.02 p.p.
Non Performing loans coverage ratio (+90 days)	146.6%	136.9%	+9.7 p.p.
NPL and doubtful loans coverage ratio	113.2%	139.7%	-26.5 p.p.
Credit at risk coverage ratio	82.1%	89.4%	-7.3 p.p.
Non-performing exposure coverage ratio	55.4%	65.3%	-9.9 p.p.

Total customer resources amounted to EUR 37.4 billion at the end of 2017, an increase of 14.3 per cent. when compared with the amount recorded in 2016.

Deposits reached EUR 32.1 billion at the end of 2017, a 12.7 per cent. increase and off balance sheet resources, amounting to EUR 5.2 billion, a significant increase of 25.4 per cent., reflecting the diversification policy of customers' resources.

<b>RESOURCES</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Customers' resources</b>	<b>37,378</b>	<b>32,691</b>	<b>+14.3%</b>
On-balance sheet resources	32,137	28,513	+12.7%
Deposits	32,137	28,513	+12.7%
Off-balance sheet resources	5,240	4,178	+25.4%
Investment funds	1,944	1,435	+35.4%
Insurance and other resources	3,296	2,742	+20.2%

## Solvency Ratios

CET1 ratio, in line with the CRD IV/CRR rules applicable in 2017, reached 14.3 per cent., standing at 14.2 per cent. on a fully implemented basis.

<b>CAPITAL</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Common Equity Tier I</b>	<b>3,115</b>	<b>3,111</b>	<b>+0.1%</b>
Tier I Capital	3,104	3,111	-0.2%
Total Capital	3,116	3,112	+0.1%
<b>Risk weighted assets (RWA)</b>	<b>21,858</b>	<b>17,972</b>	<b>+21.6%</b>
CET I ratio	14.3%	17.3%	-3.0 p.p.
Tier I ratio	14.2%	17.3%	-3.1 p.p.
Total Capital Ratio	14.3%	17.3%	-3.0 p.p.

## Future Outlook

Economic activity should maintain the favourable momentum of the latter years, with an approximate 2 per cent. growth, both in Portugal and in Europe. In Portugal, the economic cycle evidences signs of maturity, with a slight deceleration as compared to 2017.

As such, banks will continue developing their business in a context of a moderate recovery in domestic and international activity, low interest and inflation rates and a more demanding regulatory framework, namely as to equity requisites, liquidity and leveraging ratios, and also as to the new regulations concerning resolution mechanisms, with the consequent structural impact in the profitability of financial institutions

With the acquisition of the former Banco Popular Portugal, S.A., at the end of 2017, BST commenced the immediate integration of the commercial teams and central services of that bank in the structures of BST. The rebranding of all the branches occurred simultaneously, "Santander

Totta” now being the sole existing brand. One of the main priorities in 2018 shall be the operational and technological integration of the former Banco Popular Portugal S.A..

This integration will allow the Issuer to strengthen its competitive position in the market, as the largest private bank in the industry in Portugal and continue to be the prime bank in the support of the community.

The main objectives for 2018 will continue to be the increase in market shares and in customer loyalty, equity profitability and business volumes, simultaneously with the prudent management of the Issuer’s credit portfolio.

The Issuer will continue its strategy in the support for the revitalisation of the Portuguese economy and companies, together with a policy of strict control of the risks associated with the granting and follow-up of loans.

Within the process of commercial transformation which is being implemented, the Issuer will continue its policy of simplifying procedures, with the strengthening of multichannel distribution in order to render more complete and accessible customer service, and to expedite risk management with better adjusted models for each customer segment, keeping to a cautious and strict control of the assumed risks.

## **Business Areas Overview**

### **Commercial Banking**

#### **Private and Business**

In 2017, BST continued its strategy of transforming its business model, with simplifying processes and development of the digital platform, with the objective of improving quality of customer service and efficiency. This strategy has been reflected in the increase in the numbers of loyal and digital customers.

With the integration of the former Banco Popular Portugal S.A., the market share of loans to the Bank’s private customers increased by around 2 percentage points, leveraging the organic growth which has been viewed in latter years.

The year under analysis was also characterised by a significant growth in contracted mortgage loans, aided by a marketing campaign with the slogan “Quem quer casa vem ao Totta” (“Who wants a home comes to Totta”): The Bank’s market share, as at end-December, stood at 21 per cent (excluding the production of the former Banco Popular Portugal, S.A.).

The launching of “CrediSIMPLES”, in January 2017, an innovative offer only available in digital channels, initially in the Bank’s App and since September also in NetBanco, bolstered a 10.4 per cent. growth in production of personal loans, representing around 15 per cent. of total production (excluding the former Banco Popular Portugal, S.A.).

The resource diversification structure that the Bank has been implementing has resulted in accentuated growth in marketed mutual funds and financial insurance.

The number of Mundo 1|2|3 customers exceeded 360,000, of which around 204,000 already have the account, the card and protection insurance (with a 44 per cent. growth in the year). In March, this solution comprised a new advantage for customers: 1 per cent. reimbursement of the amount paid in IMI (Municipal Real Estate Tax). Mundo 1|2|3 is a multi-product solution addressed to the Bank's private customers who, in addition to the advantages of the 1|2|3 card, can provide an additional set of benefits, via cash-back in the Mundo 1|2|3 card account. Since its launching, the Bank, via cash-back, has returned EUR 15.9 million to its customers.

In Means of Payment, BST has continued to back its differing offer for each of the different customer segments it handles. With regard to private customers, the focus has been kept on the sale of the Mundo 1|2|3 card and in launching new card functionalities in App and Netbanco. In this respect the launching of new functionalities such as the digital contracting of credit cards, highlight should be given to the management of credit limits through digital channels, or PagaSimples, which allows one-click credit card payment in instalments for any given purchase.

For the companies' segment, the Bank has continued to back the Advance offer, both with POS feature and with cards, at the same time as it has focused the continuous improvement in transactional bank solutions, in order that it continues to be the day-to-day process for its company customers.

In the Private Banking area, through the offer of financial solutions with a diversified logic, supported by a relationship of trust and proximity between the customer and the Bank, it succeeded, once again, to successfully surmount during a year of intense challenges regarding growth in customer numbers, managed assets, profitability and market share.

The offers of investment solutions based on diversified assets under management, with applications in mutual funds, financial insurance and management on behalf of third parties, enjoyed significant growth

Through a joint task with the Group's Global Division of Private Banking and taking advantage of experience and market knowhow, a new technological platform was implemented, fully adapted to the business model, which will permit total portability for interaction with the customer and thus improve his experience in his relationship with the Bank. Similarly, sound growth was registered in customers' adhesion to digital channels, thus reinforcing their permanent connection with the bank.

The Private Wealth global division of the BST Group, where the Private Banking area of BST is comprised, was also set up in order to make available a larger solution of investment products and services of great quality and accessible in the several geographies where the Bank operates.

The Private Banking business of BST was, for the 7th consecutive year, distinguished as the best Private Banking area operating in Portugal, as stated in Euromoney magazine, and also received, for

the 3rd consecutive year, a similar distinction from Global Finance magazine. These awards recognise and strengthen the quality of teams and of the Bank's investment solutions.

## **Corporates**

In 2017, BST's corporate segment continued to merit special attention in BST's business activities, with significant strengthening in terms of the Bank's market share after the acquisition of Banco Popular Portugal, S.A..

Focus on the growth of corporate customers is also materialised via proximity actions with customers, such as the non-financial offer of Santander Advance Empresas (training, work placements, etc.) and the local initiatives of conferences in several of Portugal's regions (Box Santander Advance Empresas).

The BST Group was recognised by Euromoney magazine as the "World's Best Bank for SMEs", stressing that Santander's global strategy, with reference to the Santander Advance Empresas programme, goes further than just financing, since it covers training actions, internationalisation and connectivity that allow companies to overcome challenges and find solutions that allow economic value creation.

Regarding protocolled loans, particularly in the PME Capitalizar line, BST exceeded the 20 per cent. market share objective in the Capitalizar line, both in framework operations (21.3 per cent. in December 2017) and in contracted operations (26.1 per cent. considering the former Banco Popular Portugal, S.A.). Also outstanding is the IFRRU 2020 line (Financial Instrument for Urban Rehabilitation and Revitalisation) in which the Bank (including the former Popular Portugal) have obtained the largest credit line in the market.

During 2017, BST was the international business partner of more than 5,700 companies on a monthly basis. This number represents a growth in excess of 10 per cent. relative to 2016, attaining a 13 per cent. market share in trade finance and having kept to a sustained and permanent growth in the last 5 years.

## **Omni-channelling**

The implementation of the Multichannel Transformation Plan continued in 2017, in line with the strategy defined by the Group for direct channels, aiming to modernise, simplify and being closer to its customers, enabling and increasing the offer of the Bank's digital services.

In this context, new functionalities were implemented and improvements carried out to widen the offer, substantially upgrading customer experience, significantly increasing the adhesion to non-personalised channels and sales carried out via the channels.

## **Digital Channels**



In the private segment, 2017 was marked by greatly strengthening the marketing of products through digital channels.

As previously referred, at the beginning of the year a personal loan product, known as CrediSIMPLES, with the possibility of immediate contracting, was launched on the App Santander Totta, following a positive analysis by the Bank's systems. Santander Totta pioneered the launching of a solution with these characteristics.

CrediSIMPLES was initially launched in the App Santander Totta, in line with the mobile first strategy. Later on the same solution was launched in NetBanco, to ensure a wider choice of the preferred channel by the customer.

Still within the family of loan products, the Bank made available, in the digital channels, the contracting of credit cards. In this case as well, it is possible for customers to immediately contract a credit card, should they comply with the Bank's criteria and risk models and with the specific rules and limits of contracting through digital channels.

Both personal loans or credit cards have a device available that allows customers to send their processes to the branch should conditions not exist to carry out immediate contracting. The branch may thus analyse the best alternatives with the customer.

Also launched this year, in the 2 channels, was the PagaSIMPLES product, which permits customers to pay in monthly instalments purchases made with credit cards. Equally launched in NetBanco was the subscribing of pensions savings plans.

In addition to the commercial offer, several improvements were carried out and new functionalities launched in the App and Netbanco.

An ambitious improvement plan was implemented in NetBanco Empresas, regarding functionalities and usability, always with the intent of providing simple interaction and improving customer experience, with the following features standing out:

- Cancelling of credit and debit cards and possibility of requesting their replacement;
- Visualising entries in TPA/POS;
- New screens for carrying out payments for services either on a once only basis or by instalments of up to 30 payments, and the presentation of the layout of executed and to be executed transactions;
- Viewing entries and statements of the individual cards of companies' employees;
- Tutorial videos on card management in NetBanco Empresas;
- Online adhesion to SafeCare Corporate and LifeCorporate insurance;

- Improvement in transfer functionalities;
- New functionalities for beneficiaries and batch payments – domestic and international transfers and letters-cheque;
- New functionalities and improvement of transactions pending signature, namely, repeating transactions without requiring data entries, and improvement in the balance and entry functionalities;
- Request for opening of Documentary Credits with dematerialised signature.

The App Santander Totta Empresas was launched in the second half of 2017, available for both iOS and Android, with the following functionalities:

- 3 means of access: 4 digit PIN; touch ID; access credential to NetBanco Empresas;
- Approval of transactions pending authorisation;
- Push notifications of pending transactions;
- SEPA transfers;
- Services payments, State payments, asset viewing;

More than 7,000 users had enrolled at the end-of 2017.

### **Public Website**

During 2017 the strategy was maintained in the redesigning of the public site for retail customers with regard to standardising and simplifying contents and images, always especially focusing conversion components (call-to-action). Measuring and analysis tools for optimising contents (SEO) were developed and strengthened.

The launching of new areas of pension savings should be highlighted, jointly with the new Mundo 1|2|3 pages, mutual funds, cards, a new pension simulator and the launching of the eBroker platform.

The 1|2|3 personal and mortgage loan simulators were subject to improvement, as well as the insurance profiler. Campaigns and pastimes were implemented to capture digital customers, aligned with marketing strategy, highlighting the promotion of CrediSIMPLES, with online contracting in the App for private customers.

The public site exhibits an average of 1 million single visitors each month and more than 5 million monthly views.

## **Contact Centre**

Business activity in 2017 exceeded that of the homologous period, highlighting the change in the contact mix, with greater weighting in the support of digital channels. This increase in business also derives from the higher number of the Bank's customers resulting from the recent incorporations.

On a monthly average, more than 155,000 contacts with customers took place, sorted by 140,000 calls, 13,000 e-mails and approximately 2,000 chat sessions. Also followed and managed were approximately 1,500 monthly iterations in the pages and profiles of the Bank's social networks.

The companies' activities in the Contact Centre registered a very positive evolution, already representing approximately 20 per cent. of total activity, with a significant increase in functionalities and autonomy, and the carrying out of the consolidation of the Companies' Attendance Centre.

The Contact Centre continues as the main pillar of support of digital activity, not just as an aid to clarifying doubts and customer support or in the decisive role it performs in the adhesion processes to the App and Netbanco, but also in the promotion and changing customers' business activities to the digital channels.

Several functionalities were implemented in 2017, such as:

- Broker Online support, a team of market experts to aid the Bank's customers and employees regarding market features;
- Santander Próximo Superline, which is a support and complementary aid for Santander Próximo customers;
- Assessment of customer satisfaction at the end of Superline calls and support for Netbanco Empresas;
- Commercial team for personal and mortgage loans following customers' request for contact on the Bank's site or in campaign pages;
- Automation measures in the analysis of e-mails in order that subsequent treatment is more efficient and provide swifter responses to customers;
- Specific attending services for customers in the Private segment.

## **International Business/Activity**

The segment of customers residing abroad has two sub-segments: (1) private Portuguese customers residing abroad; and (2) private foreign customers residing in Portugal with the status of non-permanent residents.

The main function of the area of customers residing abroad is to support the Bank's private and business commercial networks in the setting up of solid and proximity links with the Portuguese and Luso-descendant communities residing abroad through its network of representative offices and branches which exist in 7 countries (South Africa, Germany, Canada, France, United Kingdom, Switzerland and Venezuela) as well as the promotion and capturing of foreign customers and businesses that have chosen Portugal to invest and establish their non-permanent residence.

In 2017, the international business of Banco Santander Totta for customers residing abroad privileged the diversification of customers' portfolios of financial applications, increase in the capturing of remittances and of market share of transfers from abroad, increase in the credit portfolio and customer loyalty, with massifying adherence and usage of digital channels (Net Banco and Mobile), capturing of new customers and the consolidation of integration of the former Banif's external units' operations.

The Bank attended several external events with relevant impact in the segment, both in Portugal and locally in countries where it is represented. Several campaigns were implemented aiming to strengthen the relation of trust and loyalty to the Bank with highlight on the campaign for the welcoming of the Portuguese returning from abroad for their holidays.

The business concerning customers residing abroad was influenced by the constant regulatory alterations, namely the fiscal situation with the FATCA regime in the United States and the CRS (Common Reporting Standard) that weighed upon the increasing number of decisions to invest in the real estate market in Portugal.

Transfers from abroad grew significantly with expressive gains in the Bank's market share, resulting from the soundness and trust on the actions developed that permitted increasing the attractiveness and the relevance of this service for customers residing abroad.

Following the commercial strategy of proximity and multi-channel accessibility with customers residing abroad, the initiatives listed below were implemented:

- New functionalities that allow increasing and expanding the potential of adhesion, viewing and subscribing of products in the customers' accounts in any location and at any moment, namely with the possibility of subscribing both mutual and financial funds, and life insurance;
- Promotion of visits by branch managers to Portuguese external communities. As a complement, visits were undertaken by managers of representative offices to branches and real estate brokers in locations, in Portugal, which could allow maximising commercial results and connections with commercial networks;
- In Switzerland, the moving of the representative offices in Geneva to a more central location was successfully carried out and a transfer agreement was concluded with PostFinance.

The London branch has continued to evidence excellent evolution in controlling the credit portfolio, whilst providing relevant support to branches in Portugal to service the Portuguese

community that lives and works in the United Kingdom and the foreign nationals that wish to invest in Portugal.

### **Global Corporate Banking**

Throughout 2017, the area of Structured Finance developed its activity through financing and/or financial consultancy to projects related with energy, distribution of natural gas and the real estate business, namely shopping centres and real estate promotion for prime residences and tourist apartments.

In bond markets, Santander Totta took part, as bookrunner, in the 7 and 10 year issues for EDP and Brisa Concessões Rodoviárias, respectively, in the private sale of 6 year bonds for José de Mello Saúde and in the securitisation of EDP tariff debts.

In 2017, the business of the Corporate Finance area was developed through coordination, intermediation and financial consultancy operations to a number energy, motorway and media companies, thus reinforcing the portfolio of merger and acquisition operations.

Within a context of uncertainty but in a more favourable macroeconomic global environment, most companies opted to formalise their financing at fixed rates, thus removing the risk of increases in interest rates. Within this framework, the Bank has adapted its offer of alternatives to customers' requirements, which has resulted in the increase of fixed rate loan contracts.

With regard to the exchange rate area, the number of customers that chose the Bank as partner in their foreign exchange transactions has continued to show an increasing trend.

In the Structured Products area 7 structured financial insurance contracts were marketed, amounting to EUR 249 million, as well as 16 structured products (in euros and US Dollars) totalling an amount of EUR 252 million.

### **Insurance and investment funds marketed**

In 2017, the Insurance area continued consolidating its commercial relationship with customers in order to improve their protection, adapting the range of insurance products to the Bank's customer segmentation in a multi-channel view. Focus was kept simultaneously in after-sales processes, internally promoting a servicing attitude, with an intensive plan of initiatives to improve the quality of service and, consequently, customer experience.

Digitally, the online sale of "Proteção SafeCare", Life, "Viva Mais", Home and Accidents insurance, accounted for more than 30 per cent. of the total of these products and, in the 3rd quarter of the year was extended to the online sale of financial insurance.

In 2017, commissions on financial and risk insurance contracts amounted in total to more than EUR 90 million, contributing by approximately 26 per cent. to the total commissions earned by BST.

Commissions on both autonomous protection insurance contracts and those bound to loans contributed with approximately EUR 75 million.

“Proteção SafeCare” and “Proteção Lar” continued registering great demand, rising to upward of 70,000 policies throughout the year. Focus was equally maintained on the marketing of solutions to protect family income in case of death through the marketing of Personal Accident and “Proteção Vida” policies, as well as the sale of “LifeCorporate”, “SafeCare Corporate” and “Viva Mais Corporate” addressed to the Advance segment.

Santander Asset Management (SAM) ended the year with EUR 2.0 billion in security mutual funds under management, an annual growth of EUR 496 million and a 16.3 per cent. market share.

Aiming to rationalise the product range a merger was arranged between the Santander Multiactivos 0-30 mutual fund and the Santander Select Defensivo mutual fund, whose assets under management amounted to approximately EUR 267 million at year-end, and also the merger of Santander Multiactivos 20-60 with Santander Global mutual funds, with managed assets at year-end amounting to approximately EUR 331 million.

Real estate management funds amounted to EUR 440 million in assets under management at the end of 2017.

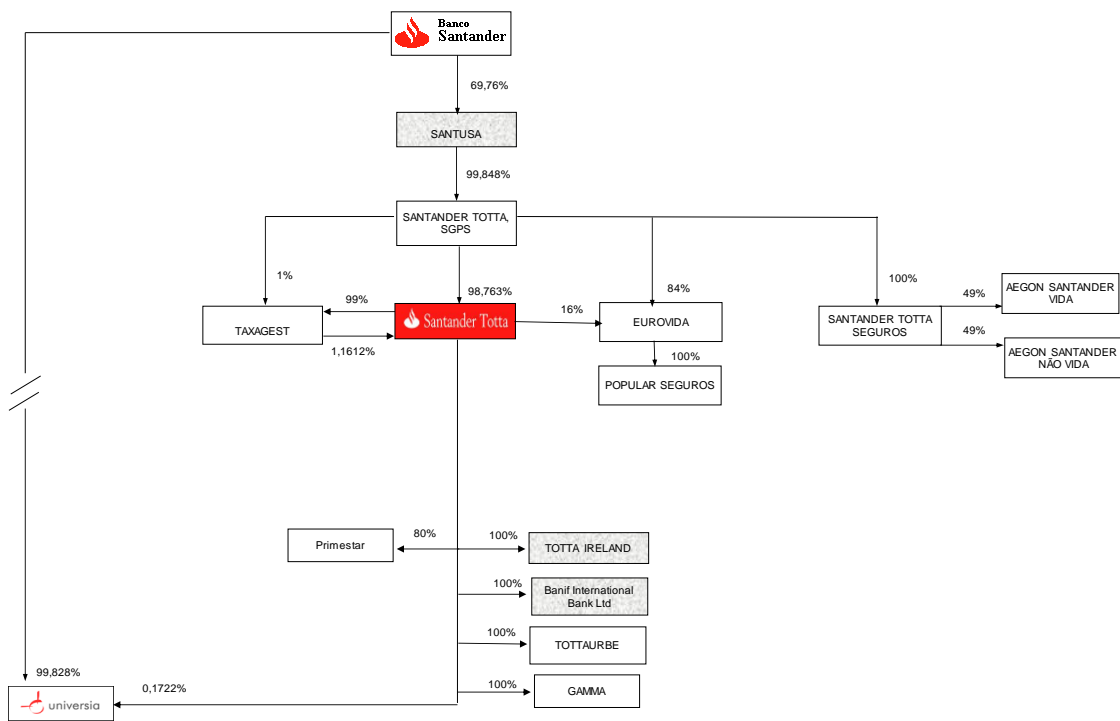
## **Organisational Structure**

### *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 CGD, 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**”), the Issuer 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, SGPS, S.A.), 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 EUR 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, the Issuer 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, the Issuer 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.

On 30 December 2016, BST completed the acquisition of Gamma – Sociedade de Titularização de Créditos, S.A., a securitisation company registered with the CMVM under number 9152, after submitting this transaction to the competent authorities and obtaining the necessary authorisations.

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 2017, the majority shareholders of the Issuer were:

Shareholder	Nº of shares	%
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%
Taxagest - SGPS, S.A.	14,593,315	1.16%

Santander Totta, SGPS, S.A. holds directly approximately 98.76 per cent. of the Issuer. Both 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, the Issuer 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 Committee and an Auditor, as described herein, in the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2017 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.

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 authorisation or non-opposition procedure of the competent supervisory authorities concerning the exercise of functions by the management and audit bodies was successfully concluded on 12 September 2016. The Issuer's appointed management and audit bodies began to exercise functions on that same date.

### **General Meeting**

Chairman	José Manuel Galvão Teles
Vice – Chairman	António Maria Pinto Leite
Secretary	João Afonso Pereira 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 <sup>3</sup>
	António Manuel de Carvalho Ferreira Vitorino
	Inês Oom Ferreira de Sousa
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

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<sup>3</sup> Resigned from his position as member of the Board of Directors on 20 February 2017, with effect from 1 April 2017.

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

Manuel de Olazábal y Albuquerque<sup>4</sup>

#### **Audit Committee**

Chairman	Luís Manuel Moreira de Campos e Cunha
	António Basagoiti Garcia-Tuñón (no longer in office as of 27 November 2017)
Members	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	Manuel Maria de Olazabal Y Albuquerque (in office as of 27 November 2017)

#### **Statutory Auditor and Auditor**

PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., represented by Aurélio Adriano Rangel Amado

#### **Executive Committee**

Chairman	António José Sacadura Vieira Monteiro
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<sup>4</sup> Appointed for the remainder of the 2016-2018 mandate in the general shareholders meeting of BST held on 31 May 2017, and initiated functions on the following day.

Members      Inês Oom Ferreira de Sousa

João Baptista Leite

José Carlos Brito Sítima

José Urgel Moura Leite Maia

Luís Filipe Ferreira Bento dos Santos

Manuel António Amaral Franco Preto

Pedro Aires Coruche Castro e Almeida

#### **Company Secretary**

Effective      João Afonso Pereira Gomes da Silva

Alternate      Raquel João Branquinho Nunes Garcia

#### **Relevant activities of directors outside BST**

<b>Name</b>	<b>Company</b>	<b>Office held</b>
António Basagoiti Garcia Tuñón	ATKearney	Member of the External Consultive Committee
	Fujitsu	Member of the External Consultive Committee
	Fund. Eugenio Rodriguez Pascual	President of the Board of Directors
	Real Club Nautico Calpe	Vice President of the Board of Directors

	Fund. Princesa Asturias	Trustee
	Fundación Santander	Trustee
	Colegio Libre de Eméritos	Trustee
	Fundación de estudios financieros	Trustee
	Fundación Silos	Trustee
António José Sacadura Vieira Monteiro	Vieira Monteiro Lda	Manager
	Santander Totta SGPS	Vice President, CEO
	Universia	President of the Board of Directors Non-Executive
	Câmara Comércio Luso Espanhola	Vice President of the Board of Directors
Enrique Garcia Candelas	Hispanium Active	Vice President of the Board of Directors
	Agrupecuaria del Odiel	Sole Director
Inês Oom Ferreira de Sousa	Universia	Non-Executive member of the Board of Directors
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Fundação Calouste Gulbenkian	President of the Board of Directors
	Partex Oil and Gas	President of the Board of Directors
João Baptista Leite	SIBS SGPS	Non-Executive member of the Board of Directors
	Unicre	Non-Executive member of the Board of Directors

José Carlos Brito Sítima	Santander Totta SGPS	Member of the Board of Directors
	Universia	Chairman of the General Assembly
Luis Manuel Moreira de Campos e Cunha	Nova SBE, Universidade Nova de Lisboa	Professor
Luís Filipe Ferreira Bento dos Santos	Santander Totta SGPS	Member of the Board of Directors
	Universia	Non-Executive member of the Board of Directors
Manuel António Amaral Franco Preto	Santander Totta SGPS	Member of the Board of Directors and the Executive Committee
	Taxagest	President of the Board of Directors
	Gamma	President of the Board of Directors
	Banco Santander Consumer	Member of the Audit Committee
Pedro Aires Coruche Castro e Almeida	Santander Totta SGPS	Member of the Board of Directors
	ACEGE	Non-Executive member of the Board of Directors
	Centro Paroquial São Francisco de Paula	Non-Executive member of the Board of Directors

## 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, the General Meeting or the Audit Board in respect of their private or other duties.

## **Recent Developments**

On 22 February 2017, the Issuer informed the market of the rating decision of Moody's which kept the long and short term debt rating of the Issuer at Ba1 and NP, respectively and the corresponding outlook was revised from stable to positive.

On 23 February 2017, the Issuer informed the market that, on 20 February 2017, Angel Rivera Congosto resigned from his position as member of the Board of Directors with effect from 1 April 2017.

On 12 April 2017, the Issuer informed the market that it had reached an agreement with the Portuguese State to end the legal actions in respect of certain interest rate swap agreements established with Portuguese State owned transportation enterprises.

In the context of this agreement, the Portuguese State will ensure that the Portuguese State owned transportation enterprises will comply with the terms of the decisions already taken by the High Court of Justice of London, which acknowledged the validity of such swap agreements, and will withdraw the appeals submitted to, but not yet accepted by, the High Court of Justice of London.

The Issuer will withdraw the legal action and the corresponding indemnity request against the Portuguese State and IGCP (the Portuguese Treasury and Debt Management Agency) pending in the Portuguese Courts and will grant a 15-year loan to the Portuguese Republic in the amount of EUR 2.3 billion, under favourable interest rates (compared to the current Portuguese government bonds market levels) and terms and conditions still to be agreed. In accordance with an announcement made by the Ministry of Finance on 12 April 2017, the Portuguese Republic estimates that reaching this agreement will permit it to save around EUR 442 million in interest payments and around EUR 50 million in costs pertaining to the legal actions mentioned above.

On 7 June 2017, Banco Santander, S.A., disclosed to the market the acquisition of 100 per cent. of the voting rights and share capital of Banco Popular Español, S.A. within the context of the BRRD framework. Such acquisition also comprises the activities of Banco Popular Portugal, S.A..

On 5 September 2017, the Issuer disclosed to the market that, following the aforementioned acquisition of Banco Popular Español, S.A. by Banco Santander, S.A. within the context of a resolution measure approved by the Single Resolution Mechanism under the SRM Regulation and

the consolidation of the Banco Popular group's business into the BST Group, the following transactions were approved:

- The purchase by the Issuer from Banco Popular Español, S.A. of 100 per cent. of the share capital of Banco Popular Portugal, S.A;
- The purchase by Totta Urbe - Empresa de Administração e Construções, S.A. from Consulteam - Management Consultants, S.A. of its asset portfolio; and
- The purchase by Santander Totta, SGPS, S.A. from Banco Popular Español, S.A. of 84.07 per cent. of the share capital of Eurovida - Companhia de Seguros de Vida, S.A..

On the same date, the Boards of Directors of the Issuer and of Banco Popular Portugal, S.A. also approved a simplified merger project, which was registered on 6 September 2017, pursuant to article 116 of the Portuguese Companies Code, whereby Banco Popular Portugal, S.A., including all its assets and liabilities, will be incorporated into the Issuer. Such merger project is available at the commercial registry certificate of the Issuer and at <https://publicacoes.mj.pt/Index.aspx>

In the context of the simplified merger project mentioned above, meetings of holders of Covered Bonds which were issued and outstanding prior to the registration of said simplified merger project were held on 19 October 2017 to consider and vote on the envisaged merger and no judicial opposition was submitted by holders of Covered Bonds.

On 27 December 2017, the Issuer announced that upon the attainment of the relevant authorisations, the simplified merger project mentioned above has been concluded with the incorporation of Banco Popular Portugal, S.A. into the Issuer. Banco Popular Portugal, S.A. therefore ceased to exist as a legal entity and all of its rights and obligations have been transferred to the Issuer.

Additionally, on 27 December 2017, the Issuer announced the following actions taken in the context of the strategy of consolidation of the BST Group in Portugal:

- Acquisition of the control over the company Primestar Servicing, S.A., company that managed up until that date the credit recoveries and real estate assets of Banco Popular Portugal, S.A.;
- Acquisition of the IT activities that companies Ingenieria de Software Bancário (Sucursal em Portugal) and Produban – Servicios Informaticos Generales (Sucursal em Portugal) performed in Portugal for the Issuer.

The standard legal proceedings will now follow with the relevant supervisory authorities, including with the ECB, with respect to said merger.

On 18 September 2017, the Issuer informed the market on the rating decision of Moody's, which kept the long and short term debt rating of BST at Ba1 and NP, respectively, revised the



corresponding outlook from positive to stable, taking into account the acquisition of Banco Popular Portugal, S.A..

On 19 September 2017, the Issuer informed the market on the rating decision of S&P which reviewed its long and short term debt rating assigned to BST from BB+ to BBB- and B to A-3, respectively, and kept the corresponding outlook stable.

On 21 December 2017, the Issuer informed the market on the rating decision of Fitch, which reviewed its long term debt rating assigned to BST to BBB+ and kept the short term debt rating at F2 with a stable outlook, viewing the activities of the Issuer in Portugal as “strategically important” for the BST Group. Fitch also affirmed that the ratings assigned to the Issuer “reflect the challenge of having successfully incorporated Banco Popular”.

On 12 April 2018, the Issuer informed the market on the rating decision of DBRS which reviewed its long term debt rating assigned to the Issuer from A (low) (that had be assigned by DBRS on 7 December 2017) to A and kept the short term debt rating assigned to the Issuer at R-1 (low) with a stable outlook.

## THE PORTUGUESE MORTGAGE MARKET

As at 31 December 2017, the Portuguese residential mortgage market was valued at EUR 98.874.000.000 (as reported by the Bank of Portugal (in *Statistical Bulletin May 2018, resulting from the information under tables B.4.1.4 and B.1.5*, available on the following link: [https://www.bportugal.pt/sites/default/files/anexos/pdf-boletim/bemai18\\_6.pdf](https://www.bportugal.pt/sites/default/files/anexos/pdf-boletim/bemai18_6.pdf)). However, by March 2018<sup>5</sup>, this value had decreased to EUR 98.465.000.000, around 52 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.

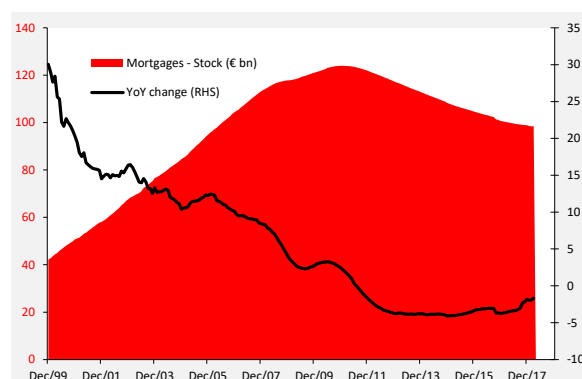
New production for mortgages has fallen steadily during the adjustment process, reflecting both demand issues, such as the constraints on household incomes (due to flat or falling wages, higher taxes, lower social transfers to households and rising unemployment), and supply issues, with tighter credit 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 2018, new mortgage production was of EUR 876 million (an increase of 22 per cent. in year to year terms).

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.

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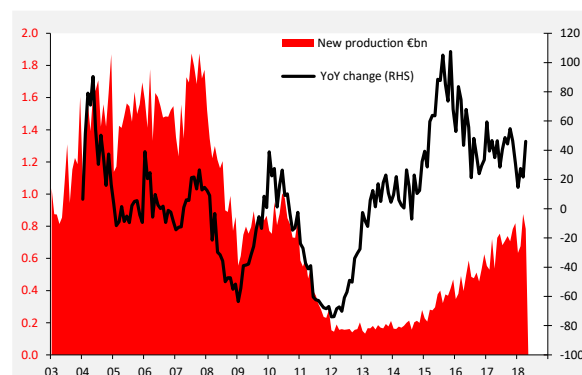
<sup>5</sup> The analysis in this section, including the description and the charts, is based on the information and statistical data available from official sources (INE, Bank of Portugal, Confidencial Imobiliário and Bank of International Settlements (“BIS”), on their internet websites, as of 31 May 2018. The latest datapoint refers to the last available information, but no later than March 2018.

**Mortgages (stock, €mn, and YoY change)**



*Source: Bank of Portugal*

**Mortgages (new production, €mn, and YoY change)**



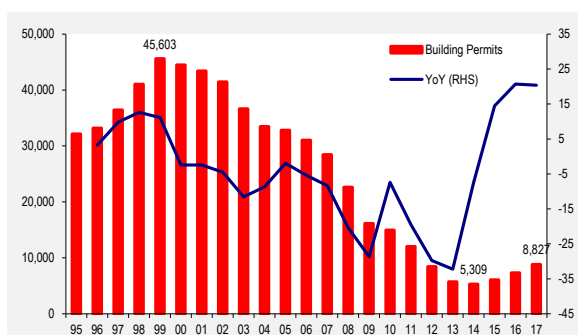
*Source: Bank of Portugal*

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.

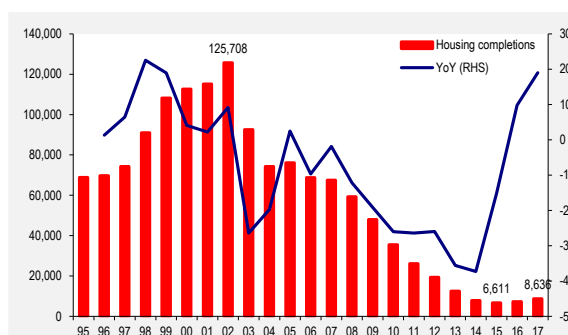
There was an average annual 20 per cent. drop in the residential building permits in the period from 2006 to 2014. In 2014, building permits fell to their lowest level, due to the significant decline in demand. In 2015, a slight recovery trend has began, which has continued in 2016 and 2017, with a cumulative increase of 66 per cent. since the 2014 minima. Housing completions which had followed the same trend as residential building permits, just began recovering, with an increase of 30% from the 2016 minima, but remain at very subdued levels.

## Building permits



Source: INE

## Housing Completions

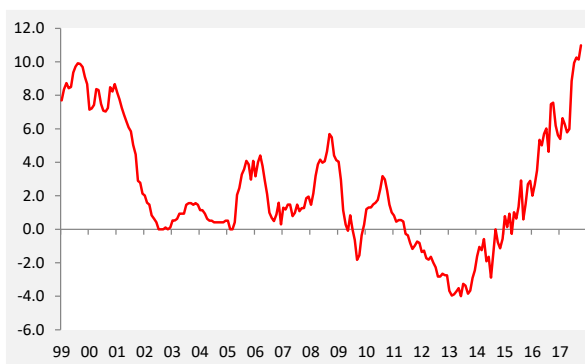


Source: INE

Since 2000, housing prices in Portugal have increased in line with the consumer price index (published by INE (in *Statistical year book of Portugal – 2016, table III.2.1 (Indicators of Prices)*)), that is to say, an increase of 2 to 3 per cent. per year. More recently, in the low interest rate environment, house prices have been increasing at a faster pace, but remain below pre-crisis levels.

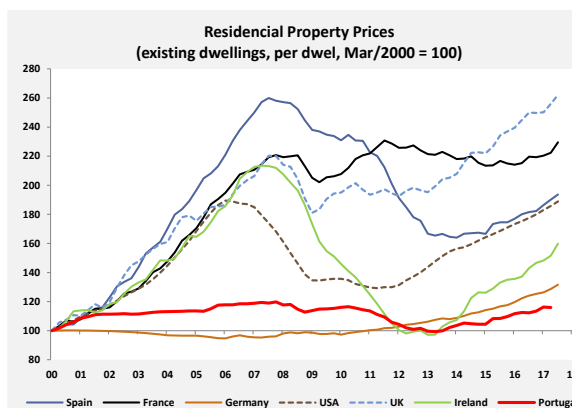
Portuguese housing prices have therefore experienced a relatively lower increase in comparison to that of other EU countries, such as Spain, Ireland and France. This lower volatility is reflected in the more moderate price developments since 2009, where Portuguese housing prices remained stable, in contrast with the majority of the developed world.

## House prices (YoY, per cent.)



Source: INE, BIS

## Residential property prices (Mar/2000=100)



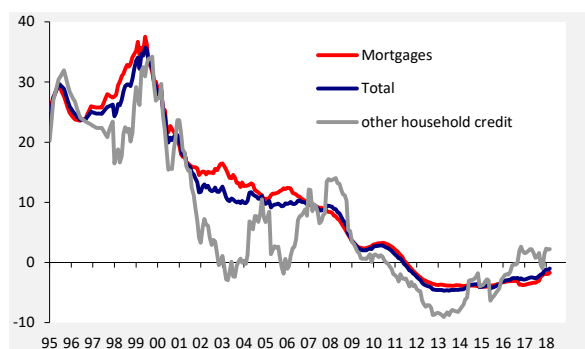
Source: BIS

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.

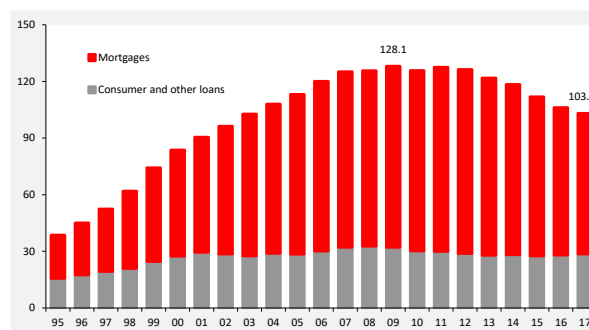
In the recent years, the decline in interest rates in a context of deleveraging by households, has improved the ability of borrowers to service the debt. In 2017, household debt, as a share of disposable income, has fallen to 103.1 per cent., down from a peak of almost 130 per cent. in 2009. The debt service is estimated at around 3 per cent. of disposable income, down from almost 10 per cent. in 2008. Around 82 per cent. of the monthly instalment is related to principal payment, while the remainder 18 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 4 per cent. (in 2016).

In the period from 2010 to 2014, new lending fell by 80 per cent. (achieving a very limited production of around EUR 2000 million per annum in the years 2012 to 2014). A recovery has taken place afterwards, with new production increasing to EUR 8,259 million in 2017.

This trend in mortgage activity, of moderate increase, is expected to be maintained, due to still gradual economic recovery, which continues 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 1.49 per cent. in March 2018).

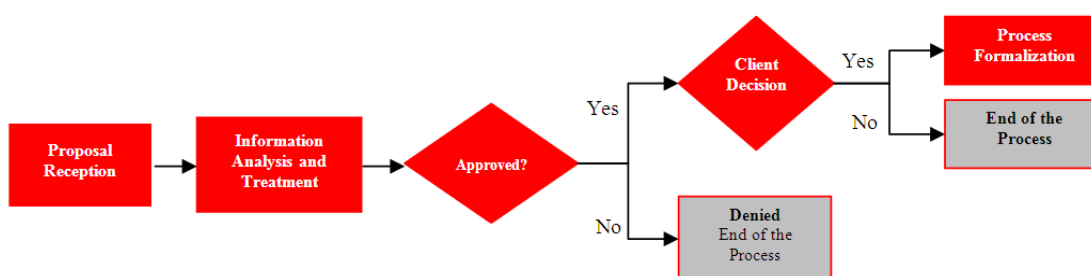
Nevertheless, the spread *vis-à-vis* Euribor 6 months remains elevated, at 176 basis points in March 2018.

Mortgage growth is forecasted to continue evolving at a steady pace, but well below pre-crisis levels. Nevertheless the overall stock of loans may still increase at a more subdued pace, as the system continues to resolve its non-performing loans, and currently new production is still below the natural erosion of the portfolio, besides higher levels of early redemptions. As economic conditions improve, households show a higher propensity to acquire houses, reflected in the improving production of new loans, even if banks remain conservative in credit lending terms, with higher spreads and tighter credit requirements (lower LTV ratios) compared to the pre-crisis period.

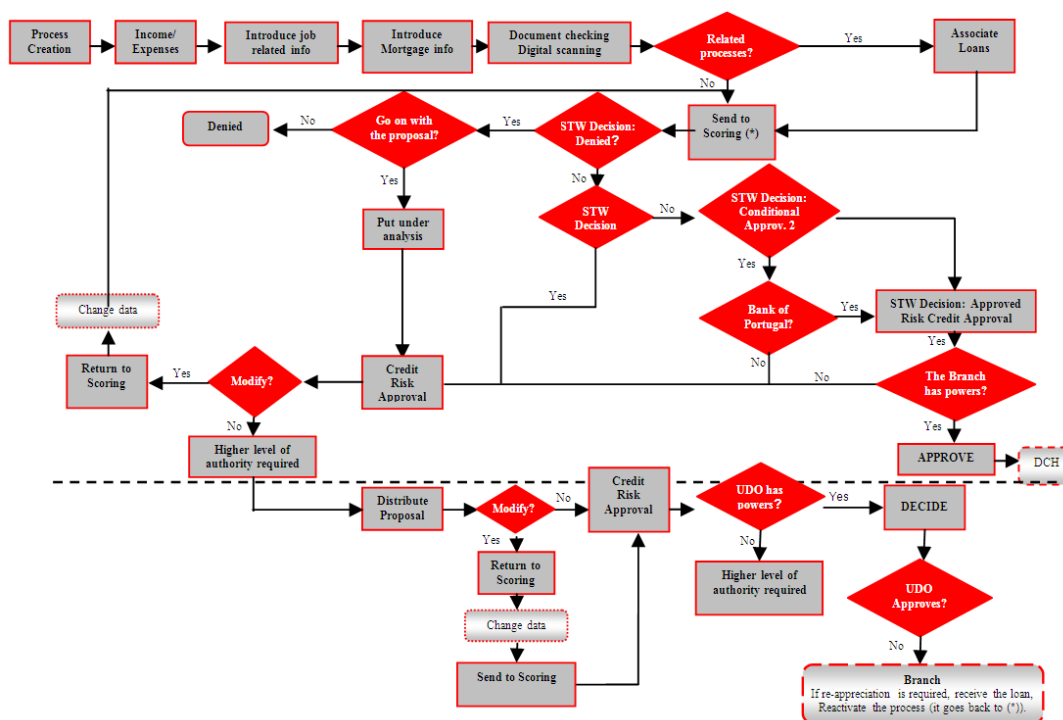
## ISSUER'S STANDARD BUSINESS PRACTICES

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.

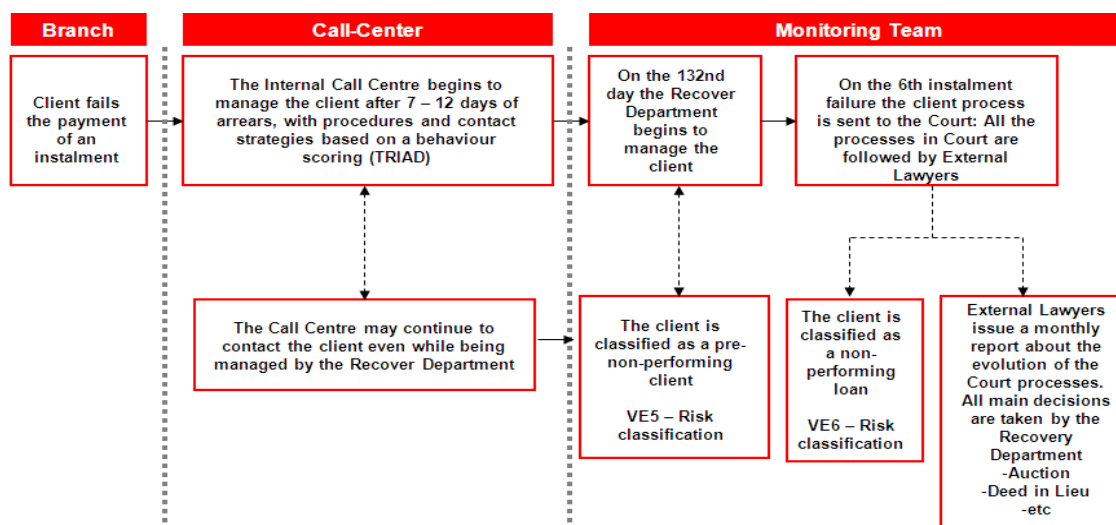
## Monitoring process

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 with 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 EUR 80.000 as follows: (i) 2.5 per cent. on the part of the taxable income up to EUR 250.000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding EUR 250.000. 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 EUR 80.000 as follows: (i) 2.5 per cent. on the part of the taxable income up to EUR 250.000, and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding EUR 250.000.

*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 EUR 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 EUR 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 EUR 1.500.000 up to EUR 7.500.000, (ii) 5 per cent. on the part of the taxable profits that exceeds EUR 7.500.000 up to EUR 35.000.000, and (iii) 9 per cent. on the part of the taxable profits that exceeds EUR 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 2004, as amended from time to time (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 25 per cent. threshold will not be applicable when the following cumulative requirements are met by the seller: (i) the seller is an entity resident in the European Union or in the European Economic Area State which is bound to cooperate with Portugal under an administrative cooperation agreement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States 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 from a tax referred to in article 2 of the Council Directive 2011/96/EU, of 30 November

2011, or a tax of similar nature with a rate not lower than 60 per cent. of the Portuguese corporate income tax 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 for holders of debt representative securities, 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 EUR 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 EUR 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 EUR 1.500.000 up to EUR 7.500.000, (ii) 5 per cent. on the part of the taxable profits exceeding EUR 7.500.000 up to EUR 35.000.000, and (iii) 9 per cent. on the part of the taxable profits exceeding EUR 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 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 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 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 a public law entity 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 beginning from 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 with residence in a country, territory or region with a clearly more favourable regime, included in the Portuguese “blacklist” (countries and territories listed in the 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 another EU Member State or in an European Economic Area Member State (in this last case, provided it is bound by 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](http://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.

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

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 the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2014/107/EU of 9 December 2014, which amended Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, of 19 December 1977, 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 is generally broader scope than the Savings Directive.

The Council Directive 2014/107/EU of 9 December 2014 regarding the mandatory automatic exchange of information in the field of taxation was transposed into the Portuguese Law through the Decree-Law no. 64/2016, of 11 October. Under such law, the Issuer will be required to collect information regarding certain accountholders and report such information to Portuguese Tax Authorities – which, in turn, will report such information to the relevant Tax Authorities of EU Member States or third States which have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information for the Common Reporting Standard.

Under Council Directive 2014/107/EU, of 9 December 2014, 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.

In view of the regime enacted by Decree-Law no. 64/2016, of 11 October, which was amended by Law no. 98/2017, of 24 August, all information regarding the registration of the financial institution, the procedures to comply with the reporting obligations arising thereof and the applicable forms



were approved by Ministerial Order (*Portaria*) no. 302-B/2016, of 2 December 2016, Ministerial Order (*Portaria*) no. 302-C/2016, of 2 December 2016, Ministerial Order (*Portaria*) no. 302-D/2016, of 2 December 2016, as amended and Ministerial Order (*Portaria*) no. 302-E/2016, of 2 December 2016.

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, 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.

Portugal signed an IGA with the United States on 6 August 2015, and has implemented through Law no. 82-B/2014, of 31 December 2014 (as amended), the legal framework based on the reciprocal exchange of information with the United States on financial accounts subject to disclosure. The IGA entered into force on 10 August 2016, and through Decree-Law no. 64/2016, of 11 October 2016, which was amended by Law no. 98/2017, of 24 August 2017, the Portuguese government approved the complementary regulation required to comply with FATCA. Under this legislation the Issuer is required to obtain information regarding certain accountholders and report such information to the Portuguese tax authorities, which, in turn, will report such information to

the IRS. The exchange of information regarding information related to calendar years 2014 and 2015 was due by 10 January 2017. For the following calendar years reporting is due by 31 July of each year comprising the information gathered respecting the previous year.

Holders of Covered Bonds should consult their own tax advisers on 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 or the securities laws of any state or other jurisdiction of the United States, 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. 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**

Unless the Final Terms in respect of any Covered Bonds specify the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering and listing contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and

- b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms in respect of any Covered Bonds specify “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the EEA 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 and listing 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.

## 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 subsequently 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 4 July 2018 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 of 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 2017 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2017.

### **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 2016 and 31 December 2017 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 auditor of the Issuer for the financial years ended 31 December 2016 and 31 December 2017 was PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., which is a member of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*) with number 183 and registered with CMVM with number 20161485, with registered office at Palácio SottoMayor, Rua Sousa Martins, 1, 3º, 1050-217 Lisbon, Portugal, represented by Aurélio Adriano Rangel Amado.

The financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 31 December 2017 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 amended<sup>6</sup>. 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 2016 and 2017 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.

## 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 2016 and 31 December 2017 (Portuguese and English versions);

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<sup>6</sup> 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.

- (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](http://www.cmvm.pt)) and of the Issuer ([www.santandertotta.com](http://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](http://www.cmvm.pt).

The Issuer publishes quarterly investor reports on the outstanding Covered Bonds (*Covered Bonds (HTT) – Investor Report*), including information on the Cover Pool and the applicable Overcollateralisation. Such reports are available at: [https://www.santandertotta.pt/pt\\_PT/Investor-Relations/Santander-Totta/Emissao-de-Divida/2018](https://www.santandertotta.pt/pt_PT/Investor-Relations/Santander-Totta/Emissao-de-Divida/2018)

The following information can be found on the June 2018 Investor Report:

Report Reference Date: 29-06-2018  
Report Frequency: Quarterly

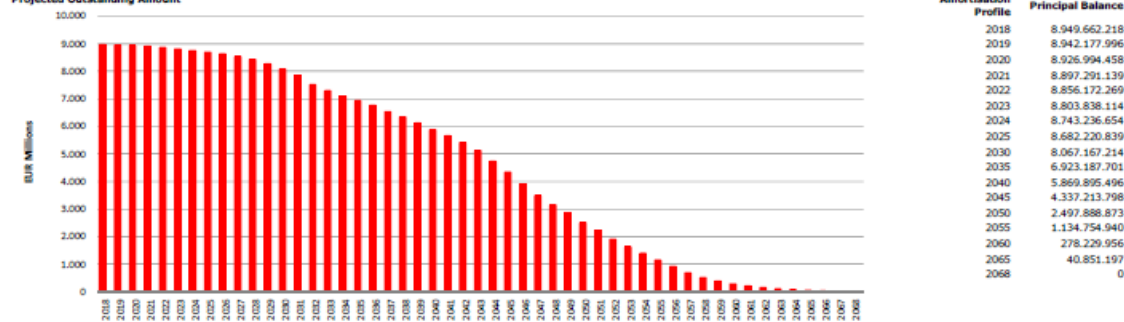
1. Credit Ratings <sup>1</sup>		Long Term				Short Term			
		Moody's	S&P	Fitch	DBRS	Moody's	S&P	Fitch	DBRS
Euro 12,500,000,000 Covered Bonds Programme		A1	n/a	A+	AA (low)	n/a	n/a	n/a	n/a
Banco Santander Totta, SA		Ba1	BBB-	BBB+	A	NP	A-	F2	R-1 (low)
Portugal		Ba1	BBB-	BBB	BBB	NP	A-	F2	R-2 (high)
<sup>1</sup> Ratings as of Report Reference Date									
2. Covered Bonds		Issue Date	Coupon	Maturity Date	Soft Bullet Date	Remaining Term (years)		Nominal Amount	
Covered Bonds Outstanding						5,73		7.700.000.000,00	
Syndicated Covered Bonds Issues									
	Covered Bond 13 (PTBSQOE0029)	11-06-2014	Fixed	11-06-2019	11-06-2020	0,95		750.000.000,00	
	Covered Bond 15 (PTBSRBOE0021)	27-10-2015	Fixed	27-10-2020	27-10-2021	2,33		750.000.000,00	
	Covered Bond 22 (PTBSRIOE0024)	25-04-2017	Fixed	25-04-2024	25-04-2025	5,83		1.000.000.000,00	
	Covered Bond 23 (PTBSRJOM0023)	26-09-2017	Fixed	26-09-2027	26-09-2028	9,25		1.000.000.000,00	
Private Placements Covered Bonds Issues									
	Covered Bond 14 (PTBSRAOE0022)	04-03-2015	Fixed	04-03-2022	04-03-2023	3,68		750.000.000,00	
	Covered Bond 16 (PTBSRCOE0020)	24-02-2016	Fixed	24-02-2021	24-02-2022	2,66		200.000.000,00	
	Covered Bond 17 - (PTBSRDOE0029)	15-04-2016	Fixed	15-04-2023	15-04-2024	4,80		750.000.000,00	
	Covered Bond 18 - (PTBSRFOE0019)	26-07-2016	Fixed	26-07-2023	26-07-2024	5,08		750.000.000,00	
	Covered Bond 21 - (PTBSRHOE0025)	10-04-2017	Fixed	10-04-2027	10-04-2028	8,79		1.000.000.000,00	
	Covered Bond 20 - (PTBSRKOM0020)	07-12-2017	Fixed	07-12-2027	07-12-2028	9,45		750.000.000,00	
CRD Compliant (Yes/No)									
3. Asset Cover Test						Remaining Term (years)		Yes	
Mortgage Credit Pool						26,09		8.950.437.701,77	
Other Assets (Deposits and Securities at market value) <sup>2</sup>						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						26,09		8.950.437.701,77	
% of ECB eligible assets								0,00%	
Overcollateralization <sup>3</sup> with cash collateral (OC)								16,24%	
Committed overcollateralization (Fitch) - Minimum OC level to keep the current Mortgage Covered Bond Programme rating								14,00%	
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) <sup>4</sup>								8.909.830.701,90	
Net Present Value of Liabilities (incl. derivatives) <sup>4</sup>								7.140.918.803,24	
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								168.662	
Aggregate Original Principal Balance (EUR)								12.676.042.740,52	
Aggregate Current Principal Balance (EUR)								8.950.437.701,77	
Average Original Principal Balance per loan (EUR)								75.156,48	
Average Current Principal Balance per loan (EUR)								53.067,30	
Current principal balance of the 5 largest borrowers								8.416.368,68	
Weight of the 5 largest borrowers (current principal balance) %								0,09%	
Current principal balance of the 10 largest borrowers								15.123.403,31	
Weight of the 10 largest borrowers (current principal balance) %								0,17%	
Weighted Average Seasoning (months)								102,24	
Weighted Average Remaining Terms (months)								317,34	
Weighted Average Current Unindexed LTV <sup>5</sup> (%)								55,88%	
Weighted Average Current Indexed LTV <sup>5</sup> (%)								56,32%	
Weighted Average Interest Rate (%)								1,11%	
Weighted Average Spread (%)								1,29%	
Max Maturity Date (yyyy-mm-dd)								2068-07-02	
Subsidized Loans						Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Yes						24.673	14,63%	739.987.621	8,27%
No						143.989	85,37%	8.210.450.081	91,73%
Insured Property <sup>6</sup>						Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Yes						168.662	100,00%	8.950.437.702	100,00%
No						0	0,00%	0	0,00%
Interest Rate Type						Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Fixed						5.500	3,26%	259.421.682	2,90%
Floating						163.162	96,74%	8.691.016.020	97,10%
Repayment Type						Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Annuity / French						167.606	99,37%	8.864.033.930	99,03%
Linear						0	0,00%	0	0,00%
Increasing instalments						117	0,07%	1.309.928	0,01%
Bullet						0	0,00%	0	0,00%
Interest-only						926	0,55%	84.891.485	0,95%
Other						13	0,01%	202.359	0,00%

Report Reference Date: 29-06-2018  
Report Frequency: Quarterly

6. Mortgage Credit Pool (continued)

Seasoning	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Up to 1 year	9.095	5,39%	915.517.241	10,23%
1 to 2 years	8.562	5,08%	859.417.540	9,60%
2 to 3 years	6.381	3,78%	567.265.576	6,34%
3 to 4 years	3.758	2,23%	312.491.472	3,49%
4 to 5 years	2.233	1,32%	150.734.937	1,68%
5 to 6 years	2.454	1,45%	155.690.303	1,74%
6 to 7 years	2.926	1,73%	184.030.124	2,06%
7 to 8 years	7.321	4,34%	491.384.949	5,49%
8 to 9 years	12.506	7,41%	818.957.957	9,15%
9 to 10 years	10.327	6,12%	566.511.904	6,33%
10 to 11 years	18.897	11,20%	982.223.041	10,97%
11 to 12 years	14.593	8,65%	761.504.820	8,51%
More than 12 Years	69.609	41,27%	2.184.707.838	24,41%
<b>Remaining Term</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Amount of Loans</b>	<b>% Total Amount</b>
Up to 5 years	13.354	7,92%	118.370.482	1,32%
5 to 8 years	8.993	5,33%	181.665.064	2,03%
8 to 10 years	6.160	3,65%	175.268.909	1,96%
10 to 12 years	10.002	5,93%	308.151.732	3,44%
12 to 14 years	13.649	8,09%	482.139.735	5,39%
14 to 16 years	12.604	7,47%	507.068.585	5,67%
16 to 18 years	7.181	4,26%	339.323.005	3,79%
18 to 20 years	7.686	4,56%	410.804.378	4,59%
20 to 22 years	7.767	4,61%	436.727.950	4,88%
22 to 24 years	7.692	4,56%	462.342.655	5,17%
24 to 26 years	10.110	5,99%	596.355.039	6,66%
26 to 28 years	12.976	7,69%	817.851.458	9,14%
28 to 30 years	11.591	6,87%	827.676.213	9,25%
30 to 40 years	32.393	19,21%	2.710.704.563	30,29%
More than 40 years	6.504	3,86%	575.987.033	6,44%
<b>Current Indexed LTV</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Amount of Loans</b>	<b>% Total Amount</b>
Up to 40%	55.787	33,08%	1.623.927.626	18,14%
40 to 50%	24.659	14,62%	1.227.966.431	13,72%
50 to 60%	27.374	16,23%	1.621.899.774	18,12%
60 to 70%	33.340	19,77%	2.275.282.807	25,42%
70 to 80%	27.502	16,31%	2.201.361.064	24,60%
More than 80%	0	0,00%	0	0,00%
<b>Loan Purpose</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Amount of Loans</b>	<b>% Total Amount</b>
Owner-occupied	159.134	94,35%	8.354.930.358	93,35%
Second Home	9.518	5,64%	595.245.636	6,65%
Buy to let	10	0,01%	261.707	0,00%
Other	0	0,00%	0	0,00%
<b>Property Type</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Amount of Loans</b>	<b>% Total Amount</b>
<b>Residential</b>				
Flat	108.861	64,54%	5.378.394.598	60,09%
House	59.306	35,16%	3.542.493.556	39,58%
Other	495	0,29%	29.549.549	0,33%
<b>Commercial</b>				
<b>Geographical Distribution</b>	<b>Number of Loans</b>	<b>% Total Loans</b>	<b>Amount of Loans</b>	<b>% Total Amount</b>
North	53.301	31,60%	2.721.544.677	30,41%
Center	31.718	18,81%	1.547.146.046	17,29%
Lisbon	58.362	34,60%	3.410.077.547	38,10%
Alentejo	11.610	6,88%	472.554.352	5,28%
Algarve	9.857	5,84%	572.774.389	6,40%
Madeira	2.711	1,61%	166.099.333	1,86%
Azores	1.103	0,65%	60.241.357	0,67%
<b>Delinquencies<sup>7</sup></b>	<b>Number of Loans</b>	<b>Total Loan Amount</b>		
> 30 days to 60 days	187	6.607.137		
> 60 days to 90 days	32	897.184		
> 90 days	0	0		

Projected Outstanding Amount<sup>8</sup>



<sup>8</sup> Includes mortgage pool and other assets; assumes no prepayments.

Report Reference Date: **29-06-2018**  
Report Frequency: Quarterly

<b>7. Expected Maturity Structure</b>							
In EUR	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-10 Years	>10 Years
Residential Mortgages <sup>a</sup>	3.256.878	11.546.450	21.892.530	35.068.911	46.948.733	357.217.187	8.474.507.013
Commercial Mortgages	0	0	0	0	0	0	0
Other Assets <sup>a</sup>	0	0	0	0	0	0	0
<b>Cover Pool</b>	<b>3.256.878</b>	<b>11.546.450</b>	<b>21.892.530</b>	<b>35.068.911</b>	<b>46.948.733</b>	<b>357.217.187</b>	<b>8.474.507.013</b>
<b>Covered Bonds</b>	<b>750.000.000</b>	<b>0</b>	<b>950.000.000</b>	<b>750.000.000</b>	<b>750.000.000</b>	<b>4.500.000.000</b>	<b>0</b>

<sup>a</sup> Includes mortgage pool and other assets; assumes no prepayments.

<b>8. Liquidity Cushion</b>		<b>Nominal Amount</b>
<b>Liquidity Cushion (according to Fitch's definition)<sup>a</sup></b>		
Liquidity Cushion amount		0,00
Deposits with eligible financial institutions		0,00
Eligible securities		0,00
<b>Liquidity Cushion requirement calculation</b>		
Required Liquidity Cushion		0,00
Interest due month 1		0,00
Interest due month 2		0,00
Interest due month 3		0,00

<sup>a</sup> At least equal to the interest payments due on the Covered Bonds Outstanding before swaps for the next 3 months

<b>9. Derivative Financial Instruments</b>		<b>Nominal Amount</b>
<b>Total Amount of Derivatives in the Cover pool</b>		<b>7.700.000.000,00</b>
<b>Of Which Interest Rate Derivatives<sup>a</sup></b>		<b>7.700.000.000,00</b>
Fixed to Floating Swaps		0,00
Interest Basis Swaps		7.700.000.000,00
<b>Of Which Currency Swaps</b>		<b>0,00</b>
<sup>a</sup> External Counterparties (No)		

<b>10. Contacts</b>	
Corporate Finance Division - Long Term Funding	<a href="mailto:dtf@santander.pt">dtf@santander.pt</a>
Other Reports on BST website	<a href="http://www.santander.totta.pt/PT/Investor_Relations/missao-de-credito/2018.htm">http://www.santander.totta.pt/PT/Investor_Relations/missao-de-credito/2018.htm</a>
ECBC Label Website	<a href="https://coveredbondlabel.com">https://coveredbondlabel.com</a>

## Notes

### <sup>1</sup> Soft Bullet Date (Extended Maturity)

If the covered bonds are not redeemed on the relevant maturity date, the maturity will automatically be extended on a monthly basis up to one year. In that event, the covered bonds can be redeemed in whole or in part on a monthly basis up to and including the Extended Maturity Date.

### <sup>2</sup> Other Assets

In addition to the mortgage assets, other assets (or substitution assets) may be included in the cover pool up to an amount equal to 20% of the cover pool, subject to the following eligibility criteria:

- Deposit with the Bank of Portugal in cash or ECB eligible securities, or
- Deposits held with credit institutions rated at least A-.

### <sup>3</sup> Overcollateralisation

The overcollateralisation ratios are calculated by dividing (i) the total outstanding balance of the assets included in the cover pool by (ii) the total nominal amount of the covered bonds (both excluding accrued interest). For clarification purposes, all assets included in the covered pool are eligible assets.

### <sup>4</sup> Net Present Value (NPV)

The NPV of the assets is obtained by discounting all future cash flows with the IRS curve plus average spread for new transactions.

The NPV of the liabilities is obtained by discounting all future cash flows based on the funding curve of the issuer.

Substitution assets as well as any derivatives in the pool are marked at their market value.

NPV of liabilities cannot exceed the NPV of the portfolio assigned to the bond, including derivatives.

Stress testing - Net present value is also calculated for a 200 bps shift upwards and downwards of the discounting curve.

### <sup>5</sup> Loan-to-Value

The Current LTV is calculated by dividing the outstanding balance of the loan by the value of the underlying property (last physical valuation).

The Current indexed LTV is calculated by dividing the outstanding balance of the loan by the latest valuation amount of the underlying property (i.e. indexed value or last physical valuation).

A full valuation of the underlying properties must have been performed by an independent appraiser, at origination or after, prior to the inclusion of the mortgage loan in the cover pool.

Properties (both residential and commercial) should also be revalued regularly:

- For commercial assets this must be done on an annual basis;
- Residential properties must be revalued at least every 3 years - if the individual mortgage credit value exceeds € 500.000
- Also the value of the mortgage property should be checked on a frequent basis, at least every three years, in order to identify the properties that require appraisal by an expert ( this procedure can be done using statistical models approved by the Bank of Portugal).

### <sup>6</sup> Insured Property

All mortgages must have property damage insurance covering fire and floods.

### <sup>7</sup> Delinquencies

A loan is considered to be delinquent if any payment is in arrears by more than 30 days. According to the Portuguese covered bonds legislation, any loan which is in arrears by more than 90 days must be removed from the pool and substituted by another loan which fulfils the eligibility criteria. Therefore, there are no NPL's included in the cover pool.

### **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 8/2006 and any applicable Regulatory Notices which may be issued in the future.

**“Base Prospectus”** means this base prospectus dated 26 July 2018, as supplemented, prepared in connection with the Programme

**“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.

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

“**Clearing System**” means Interbolsa.

“**Clearstream, Luxembourg**” means Clearstream Banking S.A..

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

“**CET1**” means Common Equity Tier 1.

“**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 10 Harewood Avenue, London NW1 6AA, 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 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, as amended.

“**CRD IV/CRR**” means, taken together, the CRD IV and CRR, 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 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012, as amended.

“**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:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

- (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:

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

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

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

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

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

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

“**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.

“**EBA**” means the European Banking Authority.

“**EC**” means the European Commission.

“**ECB**” means the European Central Bank.

“**EEA**” means the European Economic Area.

“**ESMA**” means the European Securities and Markets Authority.

“**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.

“**GDP**” means gross domestic product.

“**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.

**“Memorandum of Understanding”** means the agreement between the Portuguese Republic and the Troika;

**“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 Resolution Fund”** means the Portuguese resolution fund, as created by Decree-law no. 31-A/2012, of 10 February 2012.

**“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.

**“recast DGSD”** means Directive 2014/49/EU of the European Parliament and of the Council, of 16 April 2016, on guarantee schemes.



**“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.

**“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 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.

“**Savings Directive**” means Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, as amended by Council Directive 2014/48/EU, of 24 March 2014 and repealed by Council Directive (EU) 2015/2060, of 10 November 2015.

“**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.

“**Single Resolution Board**” means resolution authority within the Banking Union established by the SRM Regulation.

“**Single Resolution Mechanism**” means the central institution for bank resolution in the EU, which is the second pillar of the banking union and which applies to banks covered by the Single Supervisory Mechanism.

“**SRM Regulation**” means Regulation (EU) no. 806/2014, of 15 July 2014, as amended.

“**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.

**“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.

## **REGISTERED OFFICE OF THE ISSUER**

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Rua Áurea, no. 88  
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## **ARRANGER**

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## **COVER POOL MONITOR**

### **PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda.**

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## **DEALERS**

### **Banco Santander, S.A.**

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### **BNP Paribas**

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### **Credit Suisse Securities (Europe) Limited**

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### **Deutsche Bank Aktiengesellschaft**

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Germany

### **Goldman Sachs International**

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### **HSBC Bank plc**

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United Kingdom

### **Merrill Lynch International**

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