OFFERING CIRCULAR DATED 28 MARCH 2017

CAIXA GERAL DE DEPÓSITOS, S.A.

(incorporated with limited liability in Portugal)

€500,000,000
Fixed Rate Reset Perpetual Additional Tier 1 Capital Temporary Write Down Notes
Issue Price: 100 per cent.

The €500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Temporary Write Down Notes (the "**Notes**") will constitute undated, unsecured and subordinated obligations of Caixa Geral de Depósitos, S.A. (the "**Issuer**"), a limited liability company organised under the laws of the Republic of Portugal ("**Portugal**" or the "**Portuguese State**"), and will be issued in accordance with the Terms and Conditions of the Notes set out herein.

The Notes will be denominated in Euros and will bear interest on their Outstanding Principal Amount from time to time from (and including) 30 March 2017 (the "**Issue Date**") to (but excluding) 30 March 2022 (the "**First Call Date**") at a fixed rate of 10.75 per cent. per annum and thereafter at a fixed rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date thereafter. Interest will be payable quarterly in arrear on 30 March, 30 June, 30 September and 30 December in each year from (and including) 30 June 2017 (each an "**Interest Payment Date**"), **provided that** any payment of interest may be cancelled, in whole or in part, in the sole and full discretion of the Issuer, and shall be cancelled (in whole or in part) in the circumstances described in Condition 6 (*Interest Cancellation*) and following the occurrence of a Trigger Event (as further described in Condition 7 (*Loss Absorption Following a Trigger Event*)). The European Central Bank (the "**ECB**"), the Bank of Portugal, or such other or successor authority which is responsible for prudential supervision and/or empowered by national law to supervise the Issuer and its consolidated subsidiaries (together, the "**Group**") as part of the supervisory system in operation in Portugal (the "**Competent Authority**") may also direct the Issuer to exercise its discretion to cancel interest scheduled to be paid on any Interest Payment Date. Interest which has been cancelled in accordance with the Conditions will not accumulate, and holders of the Notes ("**Holders**") will not at any time be entitled to any such cancelled interest.

If at any time the CET1 Ratio of the Issuer and/or the Group falls below 5.125 per cent., the Outstanding Principal Amount of the Notes will be Written Down by the Write Down Amount, as further provided in Condition 7 (*Loss Absorption Following a Trigger Event*). The Outstanding Principal Amount may, in the sole and absolute discretion of the Issuer and subject to certain conditions, be subsequently reinstated (in whole or in part) out of any net profits generated by the Issuer or the Group, as further described in Condition 8 (*Discretionary Reinstatement of the Notes*).

The Notes will be perpetual with no fixed maturity date. The Issuer may, in its sole discretion but subject to the approval of the Competent Authority and to compliance with the conditions set out herein and with the Capital Regulations, elect to redeem the Notes (in whole but not in part) (i) on the First Call Date or any Interest Payment Date thereafter or (ii) at any time following the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions); provided that, in the case of (i) only, any principal amount by which the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) has first been reinstated in full pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*). In any such case, the Notes will be redeemed at their relevant Redemption Amount.

If at any time a Tax Event or a Capital Event occurs and is continuing, the Issuer may, instead of redeeming the Notes as aforesaid, subject to the approval of the Competent Authority and to compliance with the Capital Regulations, elect in its sole discretion either to substitute all (but not some only) of the Notes for, or to vary the terms of the Notes **provided that** they remain or become, Qualifying Additional Tier 1 Notes.

The Notes are expected on issue to be rated B- by Fitch Ratings Ltd. ("**Fitch**"). Fitch is established in the European Union and registered under Regulation (EC) No 1060/2009, as amended. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Investing in the Notes involves significant risks. Please review carefully the section entitled "*Risk Factors*" in this Offering Circular.

Application has been made to the Luxembourg Stock Exchange for Notes to be admitted to the official list of the Luxembourg Stock Exchange (the "**Official List**") and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange (the "**Euro MTF Market**"). The Euro MTF Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**"). References in this Offering Circular to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Euro MTF Market.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a description of these and certain further restrictions on offers, sales and deliveries of the Notes and on distribution of this Offering Circular and other offering materials relating to the Notes, see "*Subscription and Sale*".

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page vii of this Offering Circular for further information.

The Notes will be represented in book entry form (*forma escritural*) in registered form (*nominativas*), in denominations of €200,000, and will be integrated in and held through Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), as the entity responsible for the management and operation of the Central de Valores Mobiliários, a Portuguese Securities Centralised System (the "**CVM**"). The CVM currently has links in place with Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") through securities accounts held by Euroclear and Clearstream, Luxembourg with Affiliate Members of Interbolsa (as described herein).

Joint Lead Managers

Barclays | **Caixa – Banco de Investimento, S.A.**

Citigroup | **Deutsche Bank**

J.P. Morgan

IMPORTANT INFORMATION

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular and references herein to "this Offering Circular" shall be construed accordingly.

No person has been authorised by the Issuer or the Managers to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer or the Managers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer by or on behalf of the Issuer or any Manager to any person to subscribe for or to purchase any Notes.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuer or the Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Issuer nor any Manager undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the Notes for the benefit of any investor in the Notes. Prospective investors should review, *inter alia*, the documents deemed to be incorporated herein by reference when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Offering Circular may be lawfully distributed, or that any Notes 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 or the Managers which is intended to permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States (Regulation S), the United Kingdom, Portugal, Spain and Italy. For a further description of certain restrictions on offers and sales of the Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Managers accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Managers or the issue and offering of the Notes. Each Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer or the Managers that any recipient of this Offering Circular or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. The Managers do not undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular or to advise any investor or potential investor in the Notes of any information coming to the attention of the Managers.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "**PI Rules**"):

(i) certain contingent write down or convertible securities (including any beneficial interests therein), such as securities having features substantially similar to the Notes, must not be sold to retail clients in the European Economic Area (the "**EEA**"); and

(ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

Certain of the Managers and/or their affiliates are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest therein) from the Issuer and/or any Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Managers that:

1. it is not a retail client in the EEA (as defined in the PI Rules);

2. whether or not it is subject to the PI Rules, it will not:

   (A) sell or offer the Notes (or any beneficial interest therein) to retail clients in the EEA (as defined in the PI Rules); or

   (B) communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules),

   in any such case other than (i) in relation to any sale or offer to sell Notes (or any beneficial interest therein) to a retail client in or resident in the United Kingdom (the "**UK**"), in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell Notes (or any beneficial interest therein) to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interest therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interest therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interest therein), including (without limitation) any such laws,

regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interest therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interest therein) from the Issuer and/or any Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, 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. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

SUITABILITY OF INVESTMENT

The Notes are complex financial instruments that involve a high degree of risk. The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular and/or any applicable supplement;

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

(iii) understands thoroughly the terms of the Notes, such as the provisions governing Write Downs and situations in which interest payments may be cancelled or deemed cancelled, and is familiar with the behaviour of financial markets;

(iv) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where Euros (the currency for principal and interest payments) is different from the potential investor's currency; and

(v) is 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.

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: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes may be considered by eligible investors who are in a position to give the representations, warranties, agreements and undertakings outlined in '*Restrictions on Marketing and Sales to Retail Investors*' above, and to be able to satisfy themselves that the Notes would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Websites

In this Offering Circular, references to websites or uniform resource locators ("**URLs**") are inactive textual references and are included for information purposes only. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Offering Circular.

Definitions, interpretation and rounding

In this Offering Circular, references to:

- the "**Group**" are to the Issuer and its consolidated subsidiaries as a whole;
- "**€**", "**Euro**" and "**EUR**" are to the lawful currency of the member states of the European Union that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended;
- the "**Competent Authority"** are to the ECB, the Bank of Portugal, or such other or successor authority which is responsible for prudential supervision and/or empowered by national law to supervise the Issuer and the Group as part of the supervisory system in operation in Portugal; and
- the "**Conditions**" are to the Terms and Conditions of the Notes (and reference to a numbered Condition shall be construed accordingly).

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

STABILISATION

In connection with the issue of the Notes, Barclays Bank PLC acting as the Stabilisation Manager (the "Stabilisation Manager") or any person acting on its behalf may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes 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 Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on its behalf) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Issuer's products), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. The important factors that could cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the economic situation in Portugal and in the other jurisdictions in which the Issuer and the Group operate. These forward-looking statements speak only as at the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. 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 the Notes are also described below.

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

Capitalised terms used but not otherwise defined in this risk factor section shall have the meanings given to them under "Terms and Conditions of the Notes".

Risk Factors Relating to the Group's Business

The following section of the Offering Circular contains an overview of the Strategic Plan (as defined below). There can be no assurances that the Issuer will be able to fully implement the Strategic Plan or as to the consequences of missing the targets set out in the Strategic Plan. The factors that may impact the ability of the Issuer to attain the targets in the Strategic Plan are not all within the control of the Issuer. The targets described below have been agreed as part of the agreement reached with DG Comp (as defined below). They have not been prepared for the purpose of the offering of the Notes and are not, and should not be regarded by potential investors as, a forecast of future performance by the Issuer.

Risks relating to State ownership and State Aid

2012 Recapitalisation Plan

In June 2012, the Portuguese State, as the Issuer's sole shareholder, approved a recapitalisation plan in the amount of €1,650 million, which included:

- a capital increase by its shareholder in the amount of €750 million; and
- an issuance of hybrid financial instruments, eligible as core tier 1 capital amounting to €900 million, fully subscribed by the Portuguese State.

The capital injection by the Portuguese State was considered State Aid and subject to an individual State Aid decision by the European Commission (Decision SA.35062 (2012/N)).

2017 Recapitalisation Plan

The Issuer has posted losses after 2012, mostly due to subdued growth in the Portuguese economy that affected credit concession by banks, but also due to the impact of provisions and impairments related to non-performing loans.

In order to be able to continue its activities and also to comply with increasing capital requirements, the Portuguese State, being the Issuer's sole shareholder, and the European Commission's Directorate General for Competition ("**DG Comp**") approved a further recapitalisation plan (the "**2017 Recapitalisation Plan**"). The plan (which was specifically designed so as not to trigger State Aid rules) had four main components of which the final requirements are as follows:

- a capital increase in-kind of an estimated amount of €500 million by delivery to the Issuer of the 49 per cent. stake held by Parpública (a Portuguese State holding company) in Parcaixa, SGPS, S.A.;
- a capital increase in-kind of an estimated amount of €900 million plus accrued unpaid interest by delivery to the Issuer of the hybrid financial instruments issued in 2012 (and referred to above);

- a capital increase in cash by the Portuguese State (the final figure of which has been agreed at €2,500 million);

- the issue of subordinated debt instruments, the final figure of which has been agreed at a principal amount of €930 million (€500 million being the Notes which are the subject of this Offering Circular) to investors not related to the Portuguese State or Portuguese State entities with the issue of the Notes to occur at the same time as the capital increase in cash by the Portuguese State.

The first two components were completed in January 2012 (see – "*Risks relating to State ownership and State Aid - Completion of First Part of the 2017 Recapitalisation Plan*").

In order not to trigger State Aid rules, the 2017 Recapitalisation Plan has two conditions which have to be met: (i) that the Issuer is able to sell the issue of subordinated debt instruments to private investors, and (ii) that the Issuer implements a strategic plan (the "**Strategic Plan**") between 2017 and 2020, designed to improve the Issuer's profitability and sustainability and to create value for the shareholder on terms similar to those that which would be demanded by private investors in current market circumstances.

The 2017 Recapitalisation Plan and the Strategic Plan were approved by both the European Commission and the Portuguese State without triggering State Aid rules, as confirmed by a public communication issued on 10 March 2017 by the European Commission (the "**2017 Press Release**"). Accordingly no State Aid or other similar restrictions apply to the Issuer or the Group. Furthermore, the European Commission stated that it has accepted the early termination of the Issuer's commitment not to pay discretionary coupons on subordinated debt.

Completion of First Part of the 2017 Recapitalisation Plan

The first part of the 2017 Recapitalisation Plan was concluded on 4 January 2017, with an increase in the Issuer's share capital from €5,900,000,000 to €7,344,143,735, through the issuance of 288,828,747 new ordinary shares with a nominal value of €5.00, each fully subscribed for and paid up by the Portuguese State, as follows:

- €945,148,185 through the transfer of contingent convertible bonds subscribed for by the Portuguese State in 2012, with a nominal value of €900,000,000 plus accrued and unpaid interest of €45,148,185.

- €498,995,550, (corresponding to the book value of the Portuguese State's equity stake in Parcaixa, SGPS, S.A.), through the transfer in-kind of 490,000,000 equity shares.

In addition, the following steps were taken:

- The use of the free reserves and legal reserve amounting to a total of €1,412,460,251 to cover the same amount of retained losses carried forward from past years.

- A reduction of the Issuer's share capital by an amount of €6,000,000,000, to €1,344,143,735, through the extinguishing of 1,200,000,000 shares with a nominal value of €5.00 each, to cover the retained losses of €1,404,506,311 and to set up a free reserve for the amount of €4,595,493,689.

In addition, on 31 January 2017, eight members of the Board of Directors of the Issuer were elected for a new period of office of four years, one as a non-executive member and seven as executive members. It is intended that further individuals will be appointed to the Board of Directors.

Second Part of the 2017 Recapitalisation Plan

The second part of the 2017 Recapitalisation Plan, which comprises (i) the issue of subordinated debt instruments €500 million of which being the Notes which are the subject of this Offering Circular (ii) the €2,500 million cash injection by the Portuguese State, are expected to take place before the end of the first quarter of 2017. The remaining €430 million of subordinated debt instruments are due to be issued within 18 months following the issue of the Notes which are the subject of this Offering Circular.

The Portuguese State will inject €2,500 million in cash on the same date that the Notes which are the subject of the Offering Circular are issued. In the event that the capital increase in cash by the Portuguese State does not occur, the Notes will not be issued and any offering of the Notes will not close (see – "*Settlement of the Notes is conditional upon the Portuguese State cash injection*").

The €2,500 million cash injection will be accounted for as share capital and will lead to an increase in the Issuer's share capital and common equity tier 1 capital from €1,344,143,735 to €3,844,143,735. The share capital increase will increase *pro tanto* the Issuer's CET1 capital but will have no impact on the Issuer's Distributable Items.

In compliance with the applicable legislation in relation to the incurrence of financial indebtedness by the Portuguese State, the Portuguese Government has been specifically authorised by the Portuguese Parliament under Article 118(5) of the 2017 Budget Act (approved by Law no. 42/2016 of 28 December 2016) to incur financial indebtedness of up to €2,700 million for the purposes of making the cash injection as contemplated by the 2017 Recapitalisation Plan.

Any failure by the Issuer to meet the requirements of the 2017 Recapitalisation Plan may necessitate the Issuer to take additional measures including, but not limited to, pricing adjustments, further cost cutting or divestment of additional foreign assets. Any further capital injections by the Portuguese State may not be possible or may be subject to State Aid rules under European Union regulations. This may result in obligations, restrictions and limitations which may adversely impact the Issuer's activity in comparison with other credit institutions not subject to State Aid procedures including, but not limited to, the application of non-viability loss absorption measures or a requirement for "burden sharing" amongst holders of hybrid capital securities such as the Notes. Any such loss absorption or burden-sharing could have an adverse impact on the value of the Notes. Furthermore, the implementation of the 2017 Recapitalisation Plan may also have an adverse effect on the Issuer's activity, business and results and prospects

The Issuer's Strategic Plan includes targets that may not be achieved

The 2017 Recapitalisation Plan includes a Strategic Plan to be implemented between 2017 and 2020. This was one of the conditions imposed by DG Comp to avoid the Issuer's recapitalisation being considered State Aid. The Strategic Plan builds upon four strategic pillars and includes a set of targets. The targets relate to each of the four pillars and are described in more detail in "*Description of the Issuer – Strategic Plan*". The Strategic Plan's feasibility, including the targets proposed by the Issuer, was validated by DG Comp. The Issuer will work to achieve the proposed targets by implementing a set of initiatives described under each pillar. The targets are based on certain assumptions to revenues and costs associated with those initiatives. However, there are no assurances that these assumptions are correct or that the Issuer will be able to achieve the proposed targets within the proposed timeframe, including for reasons beyond the Issuer's control. The Issuer will ensure that the full and correct implementation of the Strategic Plan is continually monitored by an independent auditing institution and, on a quarterly basis, the Issuer will provide to DG Comp a report covering the financial and operational drivers of the Strategic Plan and an overview of the Issuer's performance compared with the targets. If any of the targets are not met, the Issuer will seek to take additional measures (including, but not limited to, pricing adjustments, further cost cutting or divestment of additional foreign assets) with a view to ensuring that those targets are achieved, which could have an adverse effect on the Issuer's activity, business and results and prospects.

The Issuer's performance is influenced by the economic activity in Portugal

The business activities of the Group are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy and market interest rates.

As the Group currently conducts the majority of its business in Portugal, its performance is influenced by the level and cyclical nature of business activity in Portugal, which is in turn affected by both domestic and international economic and political events. During 2016, the Portuguese economy continued to be affected by a reduction of the net borrowing requirements of diverse sectors of the economy, as well as adjustments to banks' balance sheets based on higher solvency ratios and a reduction of loans-to-deposits ratios.

According to the flash estimate published by the National Statistics Office ("**INE**") on 17 February 2017, Gross Domestic Product ("**GDP**") recorded a volume year-on-year increase of 1.9 per cent. in the fourth quarter of 2016, after a growth of 1.6 per cent. in the third quarter. Comparing with the third quarter, GDP change rate was 0.6 per cent. (0.8 per cent. in the third quarter in comparison to the second quarter). The economic growth in 2016 was driven by a solid rebound in private consumption and exports. However, investment continued to decline due to the switch over to the new programming period of EU investment co-financing and because of a further contraction in corporate credit. It is estimated that Portugal's economy grew in 2016 by approximately 1.4 per cent. (*Flash Estimate Press Release INE of 17 February 2017*) and real GDP growth is forecast to reach 1.6 per cent. in 2017 and 1.5 per cent. in 2018. There are notable downside risks to the forecast, as unsolved problems in the banking sector could dampen the expected recovery in investment.

Most of the recent indicators suggest that private consumption should remain robust. In addition, consumer spending is enjoying support from the increase in the minimum wage and labour market, which continues to improve vigorously. Despite some improvement in confidence, most construction investment indicators remain weak while equipment investment indicators, including manufacturing confidence and capacity utilisation, continue to signal expansion. Construction investment is therefore set to improve only marginally, driven by some recovery in public investment, whereas machinery and equipment investment is expected to continue its positive trend.

The general government deficit is estimated to have reached 2.3 per cent. of GDP in 2016. Lower than budgeted revenue collection has been partially offset by additional revenues (0.25 per cent. of GDP) from the extraordinary tax debt settlement scheme PERES (Plano Especial de Redução do Endividamento ao Estado) and overall containment of expenditure, in particular due to lower public investment. The general government deficit net of one-offs is estimated to have reached 2.6 per cent. of GDP and the structural balance is expected to have remained broadly unchanged in 2016. The headline deficit is projected to decrease to 2.00 per cent. of GDP in 2017, mainly due to a one-off operation (the recovery of a guarantee to BPP (Banco Privado Português, S.A.) bank worth 0.25 per cent. of GDP), the continued moderate economic recovery and the accommodative monetary policy. As the impact of discretionary measures is expected to be broadly neutral, the structural balance is projected to remain generally unchanged. Under a no-policy change assumption, both the headline deficit and the structural balance are set to deteriorate slightly in 2018. Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties surrounding the macroeconomics outlook and the potential deficit-increasing impact of banking support measures.

After reaching 129.0 per cent. at the end of 2015, Portugal's gross public debt-to-GDP ratio is estimated to have risen to 130.5 per cent. in 2016, mainly due to higher issuance of government debt for the ongoing recapitalisation of the Issuer. The ratio is forecast to decline to 128.9 per cent. in 2017 and to 127.1 per cent. in 2018, due to primary budget surpluses and continued economic growth.

Several challenges persist as fiscal consolidation is still unfolding, private and public debt levels remain high and it is still unclear if the Portuguese economy will start to recover in a sustainable way, particularly through an increase in investment. In the event of negative developments in the financial markets, the Issuer's ability to access the capital markets and obtain the necessary funding to support its business activities on acceptable terms may be adversely affected. A lack of ability to refinance assets on the balance sheet or maintain appropriate levels of capital to protect against deteriorations in their value could force the Issuer to liquidate assets held at depressed prices or on unfavourable terms.

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

Furthermore, the maintenance of high unemployment rates, the reduction of the profitability of enterprises and an increase in company and personal insolvencies have had, and are expected to continue to have, a negative influence on the ability of Group's clients to pay back loans, and, consequently, could cause an increase in the ratio of overdue loans, which might exceed the standard historic average, reflecting a deterioration of the quality of assets of the Group.

The Group's performance is influenced by the economic activity in other markets where it operates

The Group's business activities are also undertaken in markets other than Portugal, both in the EU and in non-EU countries, including emerging markets. It is present through branches and subsidiaries in, *inter alia*, Spain (Banco Caixa Geral, with a total of 110 branches and CaixaBI with one branch), France (French Branch (Sucursal de França) with 48 branches) and Cape Verde (Banco Interatlântico and Banco Comercial do Atlântico ("**BCA**") with 43 branches) and other branches abroad (96). Accordingly, the Group is subject to the applicable economic environment in the non-Portuguese markets in which it operates. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy and market interest rates in such countries.

In general, the Group's international operations are subject to risk (which may be heightened in relation to operations in emerging markets) associated with legislative (namely taxations and customs laws), judicial, accounting, regulatory, geopolitical (such as political and government turmoil that may freeze international money transfers), commercial and economic risks and conditions specific to the countries or regions in which the Issuer operates which could adversely affect its business and therefore its financial performance.

The Group's business is sensitive to volatility in interest rates and to changes in the competitive environment affecting spreads on its lending and deposits

The Group's business is sensitive to volatility in interest rates and to changes in the competitive environment affecting spreads on its lending and deposits.

The Group is subject to the risks typical of banking activities, including interest rate fluctuations. Changes in interest rate levels, yield curves and spreads may affect the Group's lending and deposit spreads. The Group is exposed to changes in the spread between the interest rates payable by it on deposits or its wholesale funding costs, and the interest rates that it charges on loans to customers and other banks. While both the interest rates payable by the Group on deposits, as well as the interest rates that it charges on loans to customers and credit institutions, are in each case mainly floating rates or swapped into floating rates, there is a risk that the Group will not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short or medium term. The Group is also subject to intense competition for customer deposits and the current low interest rate environment puts pressure on the Group's deposit spreads. The Group may not be able to lower its funding costs, whether relating to deposits or wholesale funding, in line with decreases in interest rates on its interest-bearing assets.

Interest rates are sensitive to several factors that are out of the Group's control, including fiscal and monetary policies of governments and central banks, as well as domestic and international political conditions. An increase in interest rates could reduce the demand for credit, as well as contribute to an increase in defaults by the Group's customers. Conversely, a reduction in the level of interest rates may adversely affect the Group through, among other things, a decrease in demand for deposits and an increase in competition in deposit-taking and lending to customers. As a result of these factors, significant changes or volatility in the interest rates could have a material adverse impact on the business, financial condition or results of operations of the Group.

The Group has implemented risk management methods aimed at mitigating these and other market risks, and exposures are constantly measured and monitored. While the Group undertakes hedging operations in order to reduce its exposure to interest rate risk, it does not hedge all its risk exposure and cannot assure its hedging strategies will be successful. If the Group is unable to adjust the interest rate payable on deposits in line with the changes in market interest rates receivable by it on loans, or if the Group's monitoring procedures are unable to manage adequately the interest rate risk, its interest income could rise less or decline more than its interest expense, in which case the Group's results of operations and financial condition or prospects could be negatively affected.

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 rating agencies Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investors Services Ltd. ("**Moody's**"), Fitch Ratings Limited ("**Fitch**") and DBRS Ratings Limited ("**DBRS**") have, on more than one occasion over the last few years, downgraded the long term rating of Portugal. Current ratings are as follows: S&P: BB+ as of 18 September 2015, with stable outlook as of 16 September 2016; Moody's: Ba1 as of 27 July 2014, with stable outlook as of 13 January 2017; Fitch: BB+ as of 4 November 2011, with stable outlook as of 3 February 2017; DBRS: BBB (low) as of 30 January 2012, with stable outlook as of 21 October 2016. A downgrade by DBRS could see the rating assigned by DBRS move to sub-investment grade, in line with the other rating agencies referred to above. DBRS is established in the European Economic Area ("**EEA**") and is registered as a CRA in the European Union (EU) in accordance with Regulation (EC) No 1060/2009 of the European Parliament, amended by Regulation (EU) No 513/2011 and No 462/2013 and by Directive 2011/61 and Directive 2014/51 on CRAs (the EU CRA Regulation). The rating downgrades were due, essentially, to the uncertainties and risks arising from the budgetary consolidation process under the Economic and Financial Assistance Program ("**EFAP**"), the low competitiveness of the Portuguese economy abroad, the external funding difficulties and the sustainability of the public debt dynamics. There might be further downgrades of the long term rating assigned to Portugal in the future, namely in the case of, a deterioration of the public finance situation arising from weaker performance of the economic activity, caused by the austerity measures adopted internally or induced by contagion as a consequence of the slowdown in the economic activity of the main trading partners of the Portuguese economy, in particular Spain, or if the market perceives these measures as insufficient or as a result of the lack of success of structural reforms, simplification of State administration and streamlining of the justice system. Under these circumstances, the perceived credit risk of Portugal will increase, with negative effects on the credit risk of Portuguese banks (including the Issuer) and, consequently, on their profit levels. 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. However, 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. Accordingly any downgrading of the ratings of Portugal could impact the Issuer and adversely affect its business and therefore its financial performance. See also the risk factor entitled "*The Group is subject to the risk that liquidity may not always be readily available; this risk is exacerbated by current conditions in global financial markets"* below.

Exposure to the Issuer's credit risk

The Issuer's short and long term ratings from the diverse international rating agencies were reaffirmed in 2016; on 29 July 2016, Standard & Poor's affirmed the Issuer's 'BB-/B' long-term and short-term ratings, with positive outlook and on 31 August 2016, the same rating agency placed the Issuer's 'BB-'long-term counterparty credit rating on CreditWatch with positive implications. These notations were reaffirmed on 30 November 2016. On 12 May 2016, Fitch affirmed the Issuer's 'BB-/B' long-term and short-term ratings, with stable outlook. On 6 June, 2016, Moody's placed the Issuer's 'B1' long term deposit and senior debt ratings on 'review for downgrade'. Other issued securities and the baseline credit assessment were placed on 'review with direction uncertain'. On 29 November 2016, DBRS placed the Issuer's 'BBB (low)/R-2 (middle)' long-term and short-term ratings, under review with negative outlook. Any further downgrading of the ratings of the Issuer may adversely affect its funding and therefore its financial performance. See also the risk factor entitled "*Credit Ratings of the Notes may not reflect all risk*".

Regulation of the financial sector

The Group operates in a highly regulated industry. The banking activities of the Group are subject to extensive regulation by, among others, the ECB, the Bank of Portugal, the European Banking Authority ("**EBA**"), the European and Securities Markets Authority ("**ESMA**") and the Comissão do Mercado de Valores Mobiliários ("**CMVM**"), as well as other supervisory authorities from the EU and the countries in which the Group conducts its activities. Such regulations relate to liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Those regulations are complex and its fulfilment implies high costs in respect of time and other resources. Additionally, non-fulfilment of the applicable regulations may cause damages to the Issuer's reputation, application of penalties and even loss of authorisation to carry out its activities.

As a consequence of the persistence of the financial crisis and the subsequent government intervention, regulation in the financial services sector has increased substantially and is expected to continue to do so, which may include the imposition of higher capital requirements, demanding duties of information and restrictions on certain types of activity or transaction.

Also, new regulations may restrict or limit the type or volume of transactions in which the Issuer participates, or cause a change in the fees or commissions that the Issuer charges on certain loans or others and consequently any of these events may have a material adverse effect on the Issuer business, financial condition and the results of its operations.

The fulfilment of current and future capital requirements as set out by the European Commission, the European Counsel and the European Parliament (together the "European Authorities") and by the Bank of Portugal and the ECB

In 2013, the European Authorities approved a new legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework, replacing the former Capital Requirements Directives (2006/48/EC and 2006/49/EC): Regulation 575/2013 of the European Parliament and of the Council of 26 June establishing new and detailed prudential requirements that institutions need to respect (the "**CRR**") and 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 (the "**CRD IV**").

The CRR has been directly applicable in European States since 1 January 2014 and requires a reinforcement of the capital requirements of the banks, changes to the definition of regulatory capital, and established the Basel III regulatory framework in the Portuguese jurisdiction. These measures may have a significant impact on the Issuer's capital and on its assets and liabilities management. The CRD IV has been implemented in Portugal by Decree-Law no. 157/2014, of 24 October 2014, which amended the Institutions Act.

Banks in Portugal are obliged to comply with a number of capital ratios, including a minimum Common Equity Tier 1 ("**CET1**") ratio of 4.5 per cent., a minimum Tier 1 ratio of 6 per cent. and a minimum total capital ratio of 8 per cent., in each case of risk-weighted assets in each case to be met on a phased-in basis until 1 January 2019 after which it will be applied on a fully loaded basis.

The CRD IV/CRR includes general rules and supervision powers, wages, governance and disclosure requirements as well as the introducing a number of additional CET1 capital buffers:

- A capital conservation buffer of 2.5 per cent. of risk-weighted assets;
- A countercyclical capital buffer of between 0 and 2.5 per cent. of risk-weighted assets, but this buffer may be higher pursuant to the requirements established by the competent authorities in different jurisdictions;
- A systemic risk buffer of up to 5 per cent. of risk-weighted assets to address systemic risks of a long-term, non-cyclical nature that are not covered by the CRR; and
- A systemic institutions risk buffer: i) for institutions with a global systemic importance: between 1 and 3.5 per cent. of risk-weighted assets; ii) for other institutions with a systemic importance: between 0 and 2 per cent. of risk-weighted assets.

For Portuguese banks, 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 will be 1.875 per cent. and as of 1 January 2019 it will be 2.5 per cent. The Bank of Portugal has also decided to set the counter-cyclical buffer rate at 0 per cent. of the total risk weighted assets. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of the Bank of Portugal or the ECB (the "**Single Supervisory Mechanism**"), as applicable. The Bank of Portugal will review this decision on a quarterly basis.

The Bank of Portugal, having duly notified the ECB under Article 5 of Council Regulation (EU) No 1024/2013, of 15 October 2013, which did not object to the Bank of Portugal's decision, and after having also consulted with the National Council of Financial Supervisors, under Article 2(3)(c) of Decree-law no 143/2013, of 18 October, has decided to impose capital buffers on credit institutions identified as systemically important institutions ("**O-SIIs**"). For that purpose the Bank of Portugal published on 29 July 2016 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 is 0.50 per cent. from 1 January 2018 and 1.00 per cent. from January 2019 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.

Based on the Supervisory Review and Evaluation Process ("**SREP**") 2016, the Issuer is required to maintain at all times a Total SREP Capital Requirement ("**TSCR**") of 10.5 per cent. on a consolidated basis (9.25 per cent. on an individual basis), which includes a Pillar 1 requirement of 8 per cent. on a consolidated basis (8 per cent. on an individual basis) and a Pillar 2 requirement of 2.5 per cent. on a consolidated basis (1.25 per cent. on an individual basis). The TSCR may change at least on a yearly basis. In addition to TSCR, the Issuer is required to maintain a Combined Buffer Requirement ("**CBR**"). As of 1 January 2017, the CBR is 1.25 per cent., corresponding to the phased-in portion of the Capital Conservation Buffer (2.5 per cent. fully loaded by 1 January 2019). The current total capital requirements are 11.75 per cent. on a consolidated basis and 10.5 per cent. on an individual basis.

The phased-in CET1 and total capital ratios calculated on a consolidated basis under the CRD IV/CRR rules were 7.0 per cent. and 8.1 per cent., respectively, in December 2016. The phased-in CET1 and total capital ratios calculated on an individual basis under the CRD IV/CRR rules were 6.8 per cent. and 8.3 per cent., respectively, in December 2016. These ratios are below the current SREP requirements set by the regulators for the Issuer on a consolidated basis. However, the regulators have given the Issuer a grace period to allow for the completion of the 2017 Recapitalisation Plan. Once the 2017 Recapitalisation is completed, the Issuer will no longer be in breach of such SREP requirements.

Adjusting the capital position of the Issuer as at 31 December 2016, for the Portuguese State's proposed €2,500 million cash injection (see – "*Risks relating to State ownership and State Aid - 2017 Recapitalisation Plan*"), in addition to the proposed issuance of the Notes which are the subject of this Offering Circular, and the first phase of the 2017 Recapitalisation Plan which was implemented in early January 2017, the phased-in and fully implemented consolidated CET1 ratios based on the capital position as at 31 December 2016 are 12.0 per cent. and 11.8 per cent., respectively. The Issuer's consolidated tier 1 and total phased-in ratios, calculated on the same basis are 13.0 per cent. and 14.1 per cent., respectively (see – "*Description of the Issuer – Recapitalisation Plan – Second Part of the 2017 Capitalisation Plan*).

Current capital ratios include legacy Tier 1 instruments that do not qualify as Additional Tier 1 under the CRR, but are subject to grandfathering (on a tapered basis) until 1 January 2022. As at 31 December 2016, the contribution of these instruments to the Issuer's consolidated Tier 1 ratio, under phasing-in methodology, amounted to €57.5 million equivalent to 0.10 per cent. of the ratio. The contribution calculated in accordance with the fully implemented methodology was nil.

Current capital ratios also include legacy Tier 2 instruments, some of which do not qualify as Tier 2 under the CRR, but are subject to grandfathering (on a tapered basis) until 1 January 2022 as at 31 December 2016, the contribution of these instruments to the Issuer's consolidated total capital ratio, under phasing-in methodology, amounted to €587 million equivalent to 1.07 per cent. of the ratio. The contribution calculated in accordance with the fully implemented methodology was 0.18 per cent. The Issuer may be subject to regular comprehensive assessments conducted by the ECB to ascertain if the Issuer’s capital ratios are capable of withstanding stress test scenarios.

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

The CRD IV/CRR requirements adopted in Portugal may change whether as a result of further changes to the CRD IV/CRR agreed by EU legislators, binding regulatory technical standards to be developed by the EBA or changes to the way in which these requirements apply to Portuguese banks. For example, on 23 November 2016, the EU Commission proposed substantial changes to the CRD IV, the CRR, BRRD and Single Resolution Mechanism framework. The changes include setting higher capital and additional loss absorbing capacity requirements, increasing the powers of the relevant competent authorities and incorporating regulatory definitions of trading activity, standardised and advanced risk weighted assets ("**RWA**") calculation methodologies for market risk and new standardised RWA rules for counterparty credit risk. The proposal also includes phase-in arrangements for the regulatory capital impact of IFRS 9 and the ongoing interaction of IFRS 9 with the regulatory framework, including potential changes to relevant accounting standards, which may in turn result in changes to the methodologies which the Group is required to adopt for the valuation of financial instruments. The impact of changes to IFRS which have yet to come into effect, such as IFRS 9, are not capable of accurate quantification at this time, but the change in the fair values and impairments of financial instruments resulting from the above could have a material adverse effect on the Group's financial condition, results of operations and, if such changes are significant, its prospects. The adoption of IFRS 9 may require an increase in the level of impairments.

The Basel Committee

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

The Basel Committee is working on several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios. The measures include revised standardised approaches for credit risk and for operational risk, a set of constraints on the use of internal model approaches for credit risk, including exposure-level, model-parameter floors, a leverage ratio minimum requirement, and aggregate capital floors for banks that use internal models based on the proposed revised standardised approaches.

In 2014 the Basel Committee issued a final regulatory text for a new standardised approach for measuring counterparty credit risk exposures, which is included in the Proposals (as defined below). Moreover, in January 2016 the Basel Committee completed the Fundamental Review of the Trading Book, a comprehensive revision of the capital adequacy standard for market risk, which is also included in the Proposals. The new standard entails for substantial revisions to both the standardised approach and the internal models approach. Furthermore, in March 2016, the Basel Committee published a proposal for a new standardised measurement approach for operational risk, which would replace all existing approaches for operational risks, including the Advanced Measurement Approach, which is the internal model-based approach for measuring operational risk in the current framework.

In December 2014 the Basel Committee issued a consultative document on the design of a capital floor framework. The framework would be based on the proposed revised standardised approaches, to limit the risk that capital requirements are too low due to the use of internal models. The new floor framework would replace the current capital floor, based on the Basel I standard, for banks using internal models.

In particular, in December 2015 the Basel Committee published its second consultative document on a revised standardised approach for credit risk. The document proposes, among other things, reducing reliance on external credit ratings, increasing risk sensitivity and reducing national discretions.

In March 2016, the Basel Committee proposed constraints on the use of internal model approaches for credit risk. In particular, the Basel Committee proposed to remove the option of using the IRB approaches for certain exposures; to adopt exposure-level, model-parameter floors; and to provide greater specification of parameter estimation practices.

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

New Requirements related to 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 high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. As of 2017, financial institutions have been required to maintain in their own portfolio high quality liquidity assets corresponding to 80 per cent. of the net cash outflows in the following 30 days. As of 2018, this requirement will increase to 100 per cent. The NSFR, which is to be implemented in 2018, will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over one year period.

As at 31 December 2016, the Issuer's LCR was 181.1 per cent., compared to 143.1 per cent. as at 31 December 2015 and the NSFR was 134.6 per cent., compared to 135.9 per cent. as at 31 December 2015.

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

Regulatory changes may have a negative impact on the Group

The Group is subject to financial services laws, regulations, administrative actions and policies in each location that it operates. Changes in supervision and regulation, in particular in Portugal, could materially affect the Group's businesses, the products and services offered or the value of its assets. At the moment, foreseeable changes include, but are not limited to, the adoption of new accounting standards (IFRS 9) as of January 2018, changes to capital adequacy regulations (Basel IV, CRR 2, CRD 5) or the introduction of minimum leverage ratios beyond the 3 per cent. required by Basel III. Although the Group works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Group.

Changes to tax legislation and to other laws or regulation

The Issuer might be adversely affected by changes in the tax legislation and other laws or regulations applicable in Portugal, the EU or those countries in which it operates or may operate in the future, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. The measures taken by the Portuguese Government in order to achieve fiscal consolidation and to stimulate the economy may result in higher taxes or lower tax benefits. Further changes or difficulties in the interpretation of or compliance with new tax laws and regulations might negatively affect the Issuer's business, financial condition and results of operations.

Minimum Requirement for own funds and Eligible Liabilities risks

The Financial Stability Board has issued a standard on Total Loss-absorbing Capacity ("**TLAC**"), which sets corresponding requirements for global systemically important banks. The Issuer is currently not a global systemically important bank ("**G-SIB**"). The TLAC requirement will be phased in starting from 1 January 2019. However, there is currently work going on in the EU to implement the TLAC standard in EU legislation. In particular, the European Commission has proposed to incorporate TLAC into the capital requirements framework, as an extension to the own funds requirements and as part of the Proposals (as defined below). Although TLAC only applies to G-SIBs, in the Proposals the European Commission has proposed that other banks in a member state, like the Issuer, be subject to a firm-specific minimum requirement for own funds and eligible liabilities ("**MREL**") regime under which they be required to issue a sufficient amount of eligible instruments to absorb expected losses in resolution and to recapitalise the institution or the surviving part thereof.

In accordance with Article 145-Y of the Institutions Act, financial institutions will be required to meet a MREL requirement. The actual size of the Issuer's MREL has not yet been set. The Issuer expects the Single Resolution Board ("**SRB**") together with the Bank of Portugal to decide and communicate during 2017 what the Issuer's MREL should be, as well as the timing for its implementation. The expectation is that the Issuer will have a period of several years (to be confirmed by the SRB once its MREL requirement is known) to comply with its MREL requirement. In order to comply with this requirement, the Issuer may be requested, in the future, to issue own funds and additional liabilities which will be eligible to count toward the MREL requirement.

On 23 November 2016, the European Commission published legislative proposals (the "**Proposals**") for amendments to the CRR, the CRD IV, the BRRD and the Single Resolution Mechanism Regulation and proposed an amending directive to facilitate the creation of a new asset class of "non-preferred" senior debt. The Proposals cover multiple areas, including the definitions of capital, the Pillar 2 framework, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential 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. In addition, the European Commission announced a binding 3 per cent. leverage ratio and a binding detailed NSFR (which will require credit institutions and systemic investment firms to finance their long-term activities (assets and off-balance sheet items) with stable sources of funding (liabilities) in order to increase banks' resilience to funding constraints. In particular, under the Proposals, the leverage ratio requirement is set at 3 per cent. (calculated by dividing a bank's tier one capital by its total exposure measure) and is added to the own funds requirements in the CRR which institutions must meet in addition to/in parallel with their risk-based requirements, and will apply to all credit institutions and investment firms that fall under the scope of the CRR, subject to selected adjustments.

In particular, it is proposed that MREL – which should be expressed as a percentage of the total risk weighted assets and of the leverage ratio exposure measure of the relevant institution – should be determined by the resolution authorities at an amount to allow banks to absorb losses expected in resolution and recapitalise the bank post-resolution. In addition, it is proposed that resolution authorities may require institutions to meet higher levels of MREL in order to cover losses in resolution that are higher than those expected under a standard resolution scenario and to ensure a sufficient market confidence in the entity post-resolution. These higher levels are expected to take the form of "MREL guidance", and it is currently envisaged that institutions that fail to meet the MREL guidance shall not be subject to the restrictions on the ability to make distributions (the "**maximum distributable amount**").

The Proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until the Proposals are in final form, it is uncertain how the Proposals will affect the Issuer or holders of the Notes.

Strong competition is faced by the Issuer across all of the markets in which it operates

The Issuer and the Group faces strong competition across all of the markets in which it operates, from local and international financial institutions.

The competition in the Portuguese banking sector has increased significantly over the last few years, mainly due to the deregulation and liberalisation of the banking system, which has resulted in important structural and operational changes. The most significant change happened in the eighties with the opening of the banking system to private entities and to foreign competition. The mergers and acquisitions involving the largest Portuguese banks have led to a significant level of banking concentration. Competition has increased further due to the emergence of non-traditional distribution channels, such as internet and telephone banking.

The principal competitors of the Group in the banking sector in Portugal (ranking in terms of assets as of 30 June 2016) are the Millennium BCP Group, Novo Banco Group (the former Banco Espírito Santo, S.A. ("**BES**") following the resolution measures applied by the Bank of Portugal to BES on 3 August 2014), the Santander/Totta Group and the BPI Group. The competition is affected by consumer demand, technological changes, impact of consolidation, regulatory actions and other factors. The Issuer expects competition to intensify as continued merger activity in the financial industry produces larger, better-capitalised companies that are capable of offering a wider array of products and services, and at competitive prices. If the Group is unable to provide attractive product and service offerings that are profitable, it may lose market share or incur losses on some or all activities.

While the Issuer believes it is positioned to compete effectively with these competitors, there can be no assurance that existing or increased competition will not adversely affect the Issuer in one or more of the markets in which it operates.

Potential impact of recovery, resolution measures, Non-viability Loss Absorption Measure and public support measures on the Issuer's activity

Directive 2014/59/EU of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions ("**BRRD**") has been transposed in Portugal by an amendment to the Institutions Act carried out by Law no. 23-A/2015, of 26 March 2015. The measures set out in the Institutions Act following the implementation of the BRRD 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, when a failure occurs or is likely to occur, to mitigate its adverse effects, by maintaining the systemically key functions of those institutions.

The Institutions Act provides for three stages of intervention by the resolution authority:

- Preparation and planning: preparation for the adoption of measures for recovery and resolution, including (i) drawing up and submitting recovery plans by credit institutions to the competent authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (ii) drawing up of a resolution plan for each credit institution or group.

- Early intervention: if a credit institution breaches or is likely to breach the legal and regulatory requirements applicable to its activity, the resolution authority has the power to *inter alia*: (i) limit or modify exposure to risk; (ii) require additional information, (iii) set restrictions or prohibitions on certain activities and changes to group structures, (iv) to restrict or prohibit the distribution of dividends to shareholders or the payment of interest to holders of additional tier 1 instruments (thus including the Notes); (v) replace managers or directors; and (vi) require credit institutions to transfer assets that constitute an excessive or undesirable risk to the soundness of the institution.

- Resolution measures: the resolution measures may consist of: (i) the disposal of all or part of the business of an institution to one or more financial institutions (sale of business tool); (ii) the disposal of all or part of the business of an institution to one or more bridge banks (bridge institution tool); (iii) the segregation of the whole of part of the business of an institution and its subsequent transfer to asset management vehicles (asset separation tool), to apply together with any of the other resolution measures; or (iv) a write-down or conversion of any of the obligations of an institution, save for certain excluded liabilities (bail-in tool).

Resolution measures may be applied to institutions if the resolution authority considers that the relevant institution and/or certain other members of such institution's group meet the following conditions ("**Resolution Conditions**"): (a) such institutions and/or certain other members of such institution's group are failing or likely to fail, (b) no reasonable prospect that such failure will be avoided within a reasonable timeframe by the adoption of any measures by the relevant institutions and/or certain other members of such institution's group, by the application of early intervention measures or by the application of a Non-viability Loss Absorption Measure (as defined below), (c) a resolution action pursues any of the following public interests and (d) (which would not be pursued more effectively by the commencement of winding up proceedings against the relevant institution):

- ensures the continuity of essential financial services for the economy;

- prevents serious consequences to the financial stability, including by preventing the contagion between financial entities and maintaining market discipline;

- protects the interests taxpayers and public treasury by minimising the use of public funds;

- safeguards the confidence of depositors and investors protected by any applicable depositors and investors compensation schemes;

- protecting the funds and assets held for and on behalf of clients and the related investment services.

For the purpose of applying resolution measures, an institution and/or certain other members of such institution's group, is considered to be failing or likely to fail when either: (a) it is, or is likely in the near future to be, in breach of its requirements for maintaining its licence; (b) its assets are, or are likely in the near future to be, less than its liabilities; (c) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (d) it requires extraordinary public financial support, except when, in order to remedy a serious disturbance in the Portuguese economy and preserve financial stability, the extraordinary public financial support takes the form of: (i) a State guarantee to back facility agreements, including liquidity facilities provided by central banks according to the central banks' conditions and new newly issued liabilities; or (ii) a public investment capitalisation transaction, subject to, at the time such public investment is carried out, none of the Resolution Conditions nor any of the Non-viability Loss Absorption Tool Conditions (as defined below) being met by the relevant institution.

Upon the entry into force of Regulation (EU) no. 806/2014 of 15 July 2014 (the "**SRM Regulation**") on 1 January 2016, the Bank of Portugal's powers as resolution authority in relation to the Issuer were transferred to 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.

Finally, pursuant to the Institutions Act, prior to the application of a resolution measure, the resolution authority shall engage an independent entity for the purposes of carrying out a valuation of an institution's assets, liabilities and off balance items. In the application of any resolution measure, the resolution authority shall ensure that the first losses of an institution are borne by the respective shareholders, followed by creditors (save for depositors covered by a deposit guarantee scheme) of an institution in an equitable manner and in accordance with the order of priority of the various classes of creditors.

In relation to the bail-in resolution tool, it may be used alone or in combination with other resolution tools where the relevant resolution authority considers that an institution meets the Resolution Conditions and gives such resolution authority the power to write down certain claims of unsecured creditors of a failing institution and/or to convert to equity certain unsecured debt claims (such as the Notes), which equity could also be subject to any future application of the general bail-in tool.

In addition to the resolution tools described above, the Institutions Act provides for the resolution authorities to have the further power to permanently write-down or convert into equity (common equity tier 1 instruments), capital instruments such as Tier 2 instruments and Additional Tier 1 capital instruments (such as the Notes) at the point of non-viability of an institution or such institution's group and before any other resolution action is taken (the "**Non-viability Loss Absorption Measure**"). Any shares issued upon any such conversion into equity may also be subject to any application of the bail-in tool.

For the purpose of the application of any Non-viability Loss Absorption Measure, the point of non-viability under the Institutions Act is the point at which any of the following conditions (the "**Non-viability Loss Absorption Tool Conditions**") is met:

- the resolution authority determines that an institution or such institution's group meets any of the Resolution Conditions and no resolution measure has been applied yet;
- the resolution authority determines that an institution or such institution's group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted; or
- extraordinary public support is required and without such support the institution would no longer be viable.

Finally, for the purposes of improving a credit institution's financial strength and subject to (i) the State Aid rules, (ii) the Capital Regulations and (iii) the principles of adequacy, necessity and proportionality in terms of return on investment and assessment of investment risk, Law 63-A/2008, of 24 November 2008, as amended (the "**Public Capitalisation Act**") provides that the Portuguese State may also, on a temporary basis, recapitalise institutions so that they comply with any required own funds ratios. Any such capital injections should be provided in exchange for shares or other instruments eligible as own funds in the relevant institution. This extraordinary public support shall only be provided to an institution that is a credit institution (such as the Issuer) incorporated in Portugal if: (a) it has insufficient own funds as determined by the competent authority following the carrying out of stress tests, asset quality reviews or other equivalent tests, (b) none of the Resolution Conditions or the Non-viability Loss Absorption Tool Conditions apply to it, (c) it is solvent, (d) the public support is not provided for the purposes of covering losses declared or likely to be declared by the relevant institution, and (e) the public support is required in order to preserve the financial stability and to prevent or correct a serious disturbance in the Portuguese economy. The provision of public support requires that any insufficiency of own funds is first resolved by way of the application of a Non-viability Loss Absorption Measure to the relevant institution so that (i) the recapitalisation by the Portuguese State is not needed or is reduced to the minimum or (ii) the public funds benefit from a more favourable regime in terms of subordination. The instruments (including the Notes) issued by the relevant institution to be fully or partially written down or converted into equity shall be determined by an order ("*despacho*") of the Ministry of Finance, who has the powers of a resolution authority for this purpose.

The powers of the resolution authority set out in the Institutions Act following the implementation of the BRRD impact on the manner by which institutions are managed as well as, in certain circumstances, on the rights of their creditors. Creditors of an institution may also be affected by the provision of public support by the Portuguese State under the Public Capitalisation Act. The Holders may be subject to write down or conversion into equity on any application of the general bail-in tool or a Non-viability Loss Absorption Measure, which may result in the Holders losing some or all of their investment. The exercise of any resolution power under the Institutions Act, any write down on conversion into equity preceding a potential recapitalisation of the Issuer under the Public Capitalisation Act and/or any suggestion of such exercise or such write down or conversion in connection with a recapitalisation could, therefore, materially adversely affect the rights of Holders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

Risks relating to legislation on deferred tax assets

The CRR requires Deferred Tax Assets ("**DTA**") to be deducted from CET1 capital.

Article 39 of the CRR, however, contains an exception for DTA that do not rely on future profitability, foreseeing that such DTA are not deducted from CET1 capital. For such purposes, DTA are deemed not to rely on future profitability when:

(a) They are automatically and mandatorily replaced without delay with a tax credit in the event that the institution reports a loss when the annual financial statements of the institution are formally approved, or in the event of liquidation or insolvency of the institution;

(b) The abovementioned tax credit may, under national tax law, be offset against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposes under that law or any other undertaking subject to the supervision on a consolidated basis; and

(c) Where the amount of tax credits referred to in point (b) exceeds the tax liabilities referred to in that point, any such excess is replaced without delay with a direct claim on the central government of the Member State in which the institution is incorporated.

The deduction of DTA from CET1 capital would thus have an impact on credit institutions established in Member States where national tax law imposes a time mismatch between the accounting and tax recognition of certain gains and losses – namely Italy, Spain and Portugal.

In this regard, the Italian and Spanish Governments enacted, in 2011 (Italy) and 2013 (Spain, with retroactive effects to 2011), amendments to national tax law that allow the conversion of DTA into tax credits, with the aim of fulfilling the requirements for non-deductibility of DTA from CET1 capital of resident credit institutions.

The Portuguese Government approved Law no. 61/2014, of 26 August, as amended from time to time, which implements a similar regime, allowing Corporate Income Taxpayers to convert DTA arising from credit impairment losses and post-employment and long-term employment benefits into tax credits.

This Law foresees that any DTA arising from the abovementioned items, accounted in taxable periods starting on or after 1 January 2015, or registered in the taxpayer's accounts in the last taxable period prior to that date, may be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the annual financial statements of the institution are formally approved by the competent corporate bodies; or (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorisation by the regulator or supervisory body. The conversion of DTA depends, however, on the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increase by 10 per cent, as well as on the issuance of warrants to the Portuguese Republic.

The tax credits obtained with the conversion of DTA may be offset against any State taxes on income and on assets payable by the taxpayer or any companies included in the same tax group or in the same group for purposes of prudential consolidation under the CRR.

The amendments to the DTA conversion regime enacted by Law no. 23/2016, of 19 August 2016, establish that the DTA conversion is not applicable to any DTA arisen from the mismatch between the accounting and tax regimes from 1 January 2016 onwards, without precluding its applicability to DTA generated concerning previous fiscal years.

As at 31 December 2016, the Group had in its accounts €2,545.8 million DTA, of which €43.2 million related to reported losses and €2,502.6 million related to temporary mismatches. Of these, €1,312.6 million are dependent on future profitability and €1,190.0 million are protected under the Portuguese fiscal regime. As the Issuer will report in its individual annual financial statements an accounting loss for the year 2016, which constitutes a trigger to the application of Law no. 61/2014, of 26 August 2014, it is expected that an amount of €430.6 million of DTA will be converted into tax credits, reducing in that amount the DTA that are protected under the Portuguese fiscal regime. With this conversion an additional reserve of €699.8 million will be constituted. An adverse development could result if part of these DTA's not being recovered and consequently impact the profitability and equity of the Issuer and the Group.

The DTA related with reported losses are deducted to regulatory capital, the DTA related with temporary mismatches that depend on future profitability are partially deducted to capital (the portion that exceeds the threshold of 10 per cent. of CET1) and partially weighed at 250 per cent. Finally, the DTA related to temporary mismatches protected by the Portuguese fiscal regime are weighed at 100 per cent. Eventual changes to the Portuguese fiscal regime could affect negatively the protected DTA (that would eventually be converted into DTA related to temporary mismatches that depend on future profitability). However, at this point, there are no expected changes in the fiscal regime that could affect negatively the calculation of DTA on capital ratios.

Deleverage Plan

One of the priorities set out by the Single Supervisory Mechanism ("**SSM**") for the banks under its supervision was a significant reduction of their stock of non-performing loans ("**NPL**") and of assets received in recovery processes, particularly real-estate, along with an increase in the coverage ratio from provisions and impairments.

This priority is set in the last SREP Decision by the ECB for the Group through the establishment of reporting duties on a quarterly basis for this type of assets along with a request for the Group to submit by 28 February 2017 an operational plan that would allow, within a reasonable and viable time frame, a reduction of the level of non-performing exposures (loans and foreclosed assets).

Recovery efforts as identified in the plan submitted by the Group, in particular the enforcement of guarantees and asset sales, as well as reference amounts and deadlines, are set under the assumption that the Group will recover the DTA registered and, as a consequence, preserve its regulatory capital.

The stated assumption is based on draft legislation under review by the Portuguese authorities that will establish the tax regime for credit impairments for 2017 and thereafter. This draft legislation, which is expected to be enacted within the next few months, aims to converge the accounting and fiscal treatment of credit impairments, minimising in a significant way new DTA's generated by time mismatch. On the other hand, it allows for a rather long transition period (15 years) with percentages pre-set for reductions in tax deductions related to DTA in existence at the end of December 2016, which may be deductible within the new regime.

In case the fiscal treatment of credit impairments is different from current expectations, the Group may have to readjust its reduction plan of non-performing exposures, in particular asset sales, so that its level of capital is not affected by the removal of DTA that totalled €2,502,566,234 at the end of 2016 and that will be €2,071,924,416 after conversion in tax deferrals, under Law n. º 61/2014, of 24 August.

The impact on the Group of the recent resolution measures in Portugal

On 3 August 2014, the Bank of Portugal announced the decision to apply a resolution measure to BES consisting of a transfer of most of its business to a bridge bank, Novo Banco, specifically set up for this purpose. Novo Banco is subject to the Bank of Portugal's and the ECB's supervision and is obliged to comply with all legal and regulatory rules applicable to Portuguese banks. The by-laws of Novo Banco were approved by the Bank of Portugal.

The share capital of Novo Banco, in the amount of €4.9 billion, was fully underwritten by the resolution fund (the "**Resolution Fund**") created by Decree-Law No 31-A/2012 of 10 February 2012, amending the Institutions Act. Of this, €3,900 million (the "**2014 Portuguese State Loan**") resulted from a loan granted by the Portuguese State to the Resolution Fund. The remaining amount was funded by the own funds of the Resolution Fund and from loans granted by the credit institutions, including the Issuer, participating in the Resolution Fund, in the total amount of €700 million (the "**Participants Loan**"). The Issuer's share of this loan was €174.3 million.

On 29 December 2015, the Bank of Portugal announced that a number of decisions clarifying and completing the resolution measure applicable to BES had been approved. In addition, the Bank of Portugal decided to transfer back to BES the obligations and liabilities arising from certain issuances of non-subordinated debt securities placed with institutional investors. The aggregate outstanding principal amount of the debt securities transferred back to BES totalled €1,941 million and had a book-value of €1,985 million. In addition to the measures mentioned above, Bank of Portugal made a final adjustment to the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco.

The Issuer's pro rata share in the Resolution Fund will vary from time to time according to the Issuer's liabilities and own funds, when compared to the other participating institutions. Contributions to the Resolution Fund are adjusted to reflect the risk profile, the systemic relevance and the solvency position of each participating institution. Given the relative size and composition of its balance sheet, the Issuer estimates that its current participation in the Resolution Fund should range between 20 per cent. and 25 per cent of the Resolution Fund. However, this number varies over time and it is very difficult to determine the exact participation at a given point in time. If only the Issuer's share of €174.3 million in the €700 million loan, granted by the credit institutions to the Resolution Fund to capitalise Novo Banco, is considered, the Issuer's participation would be in the region of 24.9 per cent.

Notice 1/2013 (as amended) issued by the Bank of Portugal, determines the periodic contributions to the Resolution Fund which are required from each participating institution shall be determined by applying a contribution rate to an amount corresponding to (i) the average monthly balance of the total liabilities of each participating institution less (ii) such institution's own funds and liabilities for deposits covered by the Portuguese Guarantee Scheme ("**Fundo de Garantia de Depósitos**"). The applicable contribution rate is determined on the basis of a base rate adjusted to reflect the risk profile, the systemic relevance and the solvency position of each participating institution.

The periodic contribution rate to be applied is set by the Bank of Portugal. For 2014 and 2015, the rate was 0.015 per cent. For 2016, the rate was 0.02 per cent. For 2017, the rate is 0.0291 per cent.

The proceeds obtained from any sale of Novo Banco will be used to repay the loans extended to the Resolution Fund. In the event that the proceeds from the sale of Novo Banco's equity are insufficient to repay the loans, the Resolution Fund will use its own receipts to finance the possible shortage. Funds available to the Resolution Fund arise from the following sources: (a) contributions from the banking sector, (b) initial, periodic and special contributions from institutions participating in the Resolution Fund and collected before the implementation of the BRRD in Portugal, (c) initial, periodic and special contributions from institutions participating in the Resolution Fund collected pursuant to Decree-Law no. 24/2013, of 19 February 2013, and due under the transitional regime provided for in Law no. 23-A/2015, of 26 March 2015 (aimed at enabling compliance with the obligations undertaken by the Resolution Fund in the context of the application of resolution measures applied before 31 December 2014), (d) initial, periodic and special contributions from the investment firms not subject to the ECB's supervision, branches of credit institutions of third countries, entities relevant for the payments system not subject to the ECB's supervision, (e) proceeds derived from investment applications and from the Resolution Fund activity, (f) donations, (g) loans, and (h) other proceeds legally or contractually allocated to the Resolution Fund.

At this stage it is not possible to ascertain if the proceeds from the sale of Novo Banco will be sufficient or not to repay the loan extended to the Resolution Fund by the Portuguese State. On 21 March 2017, the Resolution Fund announced the completion of an amendment agreement between the parties to the 2014 Portuguese State Loan, the 2015 Portuguese State Loan (as defined below) and the Participants Loan (the "**Loans**") whereby (i) the maturity dates of the Loans have been extended to 31 December 2046, the date on which the Resolution Fund is required to pay the full principal amount of the Loans, (ii) the parties have agreed that the new maturity dates of the Loans would be further adjusted in the future to the extent required to ensure that the Resolution Fund would be able to perform its payment obligations under the Loans based only on the proceeds from the regular revenues of the Resolution Fund, (iii) the parties have further agreed that the Loans would rank pari passu without any preference among themselves and (iv) the Resolution Fund has undertaken that, before the full payment of any amounts due and payable in respect of the Loans, it would not make any payments of principal or interest under any other loans obtained by it after 31 December 2016 to fund any contingent liabilities arising in connection with the resolution measures applied to BES and Banif (as defined below). A press release confirming completion of this amendment agreement was also published by the Ministry of Finance on the same date. The agreement reached between the parties to the Loans has been designed with the aim that the Resolution Fund would be able to fully perform all of its actual or contingent liabilities in connection with the resolutions of BES and Banif (as defined below) with the ordinary contributions made by the participating institutions and with the contribution from the banking sector, thereby avoiding the need for any special contributions.

On 20 February 2017, the Bank of Portugal announced that it had selected Lone Star for the final stage of exclusive negotiations with a view to agreeing the final terms and conditions for the sale of Novo Banco. There is no further publicly disclosed information on the status of such negotiations.

On 20 December 2015, the sale of the business of Banif – Banco Internacional do Funchal, S.A. ("**Banif**") and of most of its assets and liabilities to Banco Santander Totta for the amount of €150 million was announced. This transaction involved an estimated public support of €2,255 million to cover future contingencies, of which €489 million have been provided by the Resolution Fund (which was financed by a loan in the same amount granted by the Portuguese State (the "**2015 Portuguese State Loan**")) and €1,766 million directly by the Portuguese State, as a result of the determination of the assets and liabilities to be sold as agreed between the Portuguese authorities, European bodies and Banco Santander Totta. The current outstanding principal amount of the 2015 Portuguese State Loan is €353 million.

In January 2013, Banif was recapitalised by the Portuguese State in the amount of €1,100 million (€700 million in the form of special shares and €400 million in the form of hybrid instruments). This recapitalisation plan also included a capital increase by private investors in the amount of €450 million, which was concluded in June 2014. Since then, Banif has reimbursed the Portuguese State for €275 million of hybrid instruments, but was not able to reimburse a €125 million tranche in December 2014.

The recapitalisation plan assumed Banif would enter a restructuring plan which was never agreed with DG Comp. As a consequence, in December 2015 the Portuguese Ministry of Finance informed the Bank of Portugal that Banif would be sold in the context of a resolution, as described above.

As mentioned above, the Resolution Fund is ultimately financed by the banking system, and thus the outcome of any disposals to be made by or on behalf of the Resolution Fund will ultimately be borne by the institutions which are required to fund the Resolution Fund, including the Issuer. However, given the agreement between the State and the Resolution Fund referred to above, the Issuer and the other institutions participating in the Resolution Fund are not expected to be required to make special contributions to the Resolution Fund as a result of any actual or potential liabilities incurred or to be incurred by the Resolution Fund in connection with the resolution measures applied to Banif.

Following the implementation of the Single Resolution Mechanism (a) the initial and periodic contributions from the participating institutions falling within the scope of SRM Regulation have been transferred to the Single Resolution Fund ("**Single Resolution Fund**") set up by the SRM Regulation (by reference to the date of the implementation of the BRRD in Portugal) and (b) contributions raised from such institutions after 1 January 2016 shall be transferred by the Bank of Portugal to the Single

Resolution Fund. The Issuer is an institution falling within the scope of the SRM Regulation and is required to contribute to the Single Resolution Fund in accordance with the SRM Regulation and its implementing regulations. Any contributions by Issuer to the Resolution Fund after 1 January 2016 shall be made only for the purposes of funding the costs of any resolution measures applied until 31 December 2014.

If a resolution measure is applicable 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 €30,490,891.14. 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.

The creation of a deposit protection system applicable throughout the EU may result in additional costs to the Issuer

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

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

As a result of these developments, the 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.

The Group's business is significantly affected by credit risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Group's business. Adverse changes in the credit quality of the Group's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions, or increased systemic risks in financial systems, could affect the recovery and value of the Group's assets and require an increase in impairments for bad and doubtful debts and other impairments. Accordingly, the Group is subject to credit risk, i.e. the risk that the Group's clients and other counterparties are unable to fulfil their payment obligations.

The Group is exposed to many different counterparties in the normal course of its business, but 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 and investment banks. Many of these relationships expose the Group to credit risk in the event of default of a counterparty or client. In addition, the Group'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. Many of the hedging and other risk management strategies utilised by the Group also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies, which could in turn have a material adverse effect on the Group's financial condition and results of operations.

Although the Group regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions which the Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the Group may be insufficient to cover the exposure or others' obligations to it, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations this could have a material adverse effect on the Group's financial condition and results of operations.

The Group actively manages credit risk and analyses credit transactions. Expectations about future credit losses may, however, be incorrect for a variety of reasons. An unexpected decline in general economic conditions, unanticipated political events or a lack of liquidity in the economy may result in credit losses which exceed the amount of the Group's provisions or the maximum probable losses envisaged by its risk management models. As the Group's operations are mostly concentrated in Portugal, it is particularly exposed to the risk of a general economic downturn or other events which affect default rates in Portugal. An increase in the Group's impairment for loan losses or any loan losses in excess of these impairments could have a material adverse effect on the Group's financial condition and results of operations.

The level of NPL in the Portuguese banking system remains high, with an average rate of 8.56 per cent. as at 31 December 2016 (according to the Bank of Portugal). In addition, as at 31 December 2016, the NPL in the corporate sector was 15.70 per cent., in the consumer credit sector it was 6.17 per cent. and in the mortgage credit sector it was 2.46 per cent. This situation is expected to continue to have a negative impact on the Group's profitability. For further information see - "*Description of the Issuer – Methodology*".

Exposure to specialised funds in credit recovery

The Group has entered into a series of transactions through which it sold assets, namely credits to customers, to funds specialised in credit recovery, in exchange for units of those funds.

In this type of specialised funds in credit recovery, the Group, as any other participant, does not have the possibility to request the reimbursement of its units during the life of the funds. On the other hand, there is no secondary market for these units which makes their sale unlikely.

These units are held by several banks in the market, which are the transferors of the credits, in percentages that vary through the life of the funds, but that require that no bank, by itself, holds more than 50 per cent. of the fund at any time.

The funds have a specific management structure, entirely independent from the participant banks, whose purpose is to ensure the implementation of recovery measures of the assets.

The Group has a total exposure to these specialised funds in credit recovery of €779.4 million as at 31 December 2016, with impairments totalling €246.3 million. Thus the Group's net exposure to specialised funds in credit recovery was €533.1 million, as at 31 December 2016.

A possible deterioration in the recovery expectations of the disposed credits to specialised funds in credit recovery may result in a devaluation of the Net Asset Value of the units held by the Group, which could require the establishment of additional impairments.

The Group is exposed to credit concentration risks

The Group has significant credit exposure to certain groups of clients. The Group has a well-diversified loan portfolio, with the top 10 exposures representing 8.5 per cent., top 30 exposures representing 13.5 per cent. and top 100 exposures representing 20.1 per cent. of the loan portfolio and with no industry representing more than 38.2 per cent. of corporate loans (in each case, as at 31 December 2016). However, in the event that any of these groups defaults, such defaults may lead to a material increase in impairment charges, which could have an adverse effect on the Group's results and asset quality.

The Group is exposed to the Portuguese real estate market

The Group is exposed to the Portuguese real estate market, either directly, through assets related to its operations or obtained in lieu of payments, or indirectly, through real estate that secure loans or by financing real estate projects, which makes it vulnerable to a depression in the housing market. The Group's loan portfolio, of which 66 per cent. is collateralised, with an average LTV in the mortgage portfolio of 64 per cent. (in each case, as at 31 December 2016). Any significant devaluation of Portuguese real estate market prices could result in impairment losses on the assets held directly, and cause a decrease in the coverage of credit exposures of real estate collateral, thereby affecting adversely the financial condition and results of the Group.

The Group is exposed to risks associated with changes in interest rates, exchange rates, commodity prices and equity prices and other market risks

The most significant market risks the Group faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The Group has implemented risk management methods to mitigate and control these and other market risks to which the Group is exposed and exposures are constantly measured and monitored. However, it is difficult to predict changes in economic or market conditions with accuracy and to anticipate the effects that such changes could have on the Group's financial condition and results of operations.

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

The Group uses internally developed models to support some of its activities, including, but not limited to, scoring models used to assess clients' (individuals and corporates) capacity to repay loans granted by the Group. Even though the Group works continually to upgrade its internal models to adapt them to constant changing market conditions, these models do not exclude the possibility of the Group incurring losses associated with factors not foreseen or contemplated in the models parameters or methodology.

The Issuer is exposed to pension risk

The Issuer must pay retirement pensions due to sickness, disability or age of its employees, as well as survival pensions of employees admitted as of 1 January 1992. Survival pensions of employees admitted prior to 1 January 1992 are paid by Caixa Geral de Aposentações ("**CGA**"). For that effect, these employees pay 2.5 per cent. of their remuneration to CGA.

Additionally, according to the current Collective Work Agreement (*Acordo Coletivo de Trabalho Vertical* or "**ACTV**") for the banking sector, the former Banco Nacional Ultramarino ("**BNU**") had the commitment to pay its employees instalments on account of early retirement and for age, disability or survival related reasons. These instalments consisted of a percentage, that increased with the number of years worked, applied to the salary table that was negotiated annually with bank employee unions. In 2001, as a result of the merger of BNU in the Issuer, the liabilities related to pensions of BNU employees were transferred to the Issuer. Former BNU employees that were still active at the time of the merger were transferred to the Issuer's plan for pensions and other benefits. But the BNU employees that were already retired and receiving pensions at the time of the merger continued to benefit from the pension plan that existed prior to their retirement.

As of 30 November 2004, the Issuer transferred to CGA all liabilities associated with retirement pensions of its employees, with reference to the time worked until 31 December 2000, under Decree-Law 240-A/2004 of 29 December and Decree-Law 241-A/2004 of 30 December. The transfer included liabilities related with subsidies for death after normal retirement age, relative to time worked as referred above.

As a result, the Issuer 's responsibilities with pensions as of 31 December 2016 were the following:

- Liabilities relative to working employees for services rendered after 31 December 2000;

- For retirees between 1 January 2001 and 31 December 2016, the portion of liabilities corresponding to services rendered during that period;
- Liabilities for retirement and survival pensions of BNU employees that were already being paid at the time of the merger; and
- Liabilities related to subsidy for death relative to services rendered after 31 December 2000.

Pensions are a function of the time worked by employees and their respective contributions at the time of retirement, and are updated base in current retributions per working employees. The Issuer's pension plan is no longer applicable to current employees admitted after 1 January 2006.

As of 31 December 2016, liabilities with retirement pensions were €2,540.5 million. These liabilities were computed by an external actuary based on the following assumptions: a discount rate of 2.125 per cent. (for a duration of approximately 20 years), a salary growth rate of 1 per cent. and a pension growth rate of 0 per cent. for 2017 and of 0.5 per cent. for following years. The Issuer revaluates annually if the actuary assumptions used in the calculation of liabilities are adequate.

The Issuer ensures the necessary contributions to cover its pension liabilities through a pension fund that was established in December 1991. As at 31 December 2016, there were 14,066 beneficiaries of the pension fund.

The value of the assets of the pension fund as at 31 December 2016 were €2,497.5million, which include an extraordinary contribution of €138.6 million corresponding to a coverage of 98.3 per cent. of pension related liabilities.

As a defined benefit plans, the nature of the Issuer's contributions has two sources: (i) one related to the annual cost of working employees and (ii) extraordinary contributions resulting from actuarial or financial losses (e.g. mortality deviations, salary growth rate, discount rate).

The most significant factors for an increase in contributions are the reduction of the discount rate (a reduction of 0.125 per cent. implies an increase of about €60.4 million in pension liabilities) and financial losses of the fund's assets related to adverse market conditions. In 2016 the fund had a return close to 0.89 per cent.

Another factor that may influence the levels of contributions is the mortality table used in the calculation of liabilities. The Issuer has adapted the mortality tables used in computing retirement pensions in order to adjust for life expectancy by gender. The deviation of the actuarial assumptions are revised annually.

Over the last few years, it has been verified that the mortality estimate resulting from the application of the mortality tables to the population evaluated annually has been lower than real mortality. This has had the effect, each year, of having actuarial gains, meaning that liabilities associated with the retired population have been overestimated. Taking into account the evolution of average life expectancy of the last decade, it is important to keep performing the adherence analysis of the mortality tables used by the Issuer, leading to a potential adjustment in line with that evolution.

In the event of a shortfall in its pension liabilities, the Group may be required or may choose to make additional payments to the Group's pension schemes which, depending on the amount, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

The Group is exposed to IT, data protection, management of confidential/personal information, cybercrime risks

The Group's ability to remain competitive depends in part on its ability to upgrade the Group's Information technology on a timely and cost-effective basis. The Group must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group.

The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately, and on the Group's ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in the Group's computer systems and networks. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group takes protective measures and continually monitors and develops its systems to protect the Group's technology infrastructure and data from misappropriation or corruption, but the Group's systems, software and networks nevertheless may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurance that the Group will not suffer material losses from operational risk in the future, including relating to cyber-attacks or other such security breaches. Further, as cyber-attacks continue to evolve, the Group may incur significant costs in its attempt to modify or enhance its protective measures or investigate or remediate any vulnerabilities.

The Group is subject to infrastructure risks

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

The Group is exposed to operational risks

In the course of its activities, the Group may face operational risks including, but not limited to, the risk of losses resulting from inadequacies or procedural faults or caused by persons and information systems or due to external events. The operational risk management within the Group is based on analysis by processes (end-to-end) supported by a set of guidelines, methodologies and regulations recognised as good practice.

The Group has adopted, on a consolidated basis, the standard method in the calculation of own funds requirements. This calculation method also includes, on an individual basis, Caixa - Banco de Investimento, S.A., Caixa Leasing and Factoring, Mercantile Bank (South Africa) and Banco Caixa Geral (Spain), which will be subject to the eligibility criteria applicable to the preferred method on a separate basis.

According to the Standard Method and on a consolidated basis, own funds requirement to hedge operating risk was €252 million as at 31 December 2016. Increases to this amount may have a negative impact on the Group's capital ratios.

The Group is subject to the risk that liquidity may not always be readily available; this risk is exacerbated by current conditions in global financial markets

Liquidity risk arises from the present or future inability to pay liabilities as they mature. Banks, principally by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk. Over the last few years many banks have resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits).

The maintenance of sufficient customer deposits to fund the Group's loan portfolio is subject to certain factors outside the Group's control, such as depositors' concerns relating to the economy in general, the financial services industry or the Group specifically, ratings downgrades (including any downgrade of other financial institutions or the Republic of Portugal), significant further deterioration in economic conditions in the Republic of Portugal and the existence and extent of deposit guarantees. Any of these factors on their own or in combination could lead to a reduction in the Group's ability to access customer deposit funding on appropriate terms in the future and could result in deposit outflows, both of which would have an impact on the Group's ability to fund its operations and meet its minimum liquidity requirements, and may require the Issuer to increase its use of sources other than deposits, if available, to fund its loan portfolio.

The Group's liquidity could also be impaired by an inability to access debt markets, an inability to sell assets or redeem its investments, other outflows of cash or collateral deterioration. These situations may arise due to circumstances that the Group is unable to control, such as continued general market disruption, loss in confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. Access to the financial markets has been limited since the disruptions in the credit markets in 2007. Funding in the interbank markets or via the capital markets has been very difficult, especially since 2010 for banks from the EU periphery economies. Even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution.

The Issuer also holds an investment portfolio which has a material exposure to Portuguese government bonds, other sovereign and corporate bonds and equity. Such investment portfolio may fluctuate in value and have a materially negative impact on the Issuer's capital position.

The Issuer also borrows from the ECB. Thus, any adverse change to the ECB's lending policy or any changes to the funding requirements set by the ECB, including changes to collateral requirements (particularly those with retroactive effect), could significantly affect the Group's results of operations, business and financial condition.

On a Group level, resources with the ECB were up €761 million from the end of 2015, to €3,527 million as at 31 December 2016, currently representing 3.8 per cent. of total assets. This increase was accompanied by an increase in the eligible assets portfolio allocated to the Eurosystem pool from €11,604 million in December 2015 to €12,347 million 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. Currently, the eligibility of Portuguese public debt will depend on the maintenance of an "investment grade" rating by at least one rating agency (DBRS is the only rating agency that attributes an "investment grade" rating to Portugal). In this context, a credit rating downgrade of Portugal by DBRS would result in the non-eligibility of Portuguese public debt for financing with the ECB.

Although the Group puts significant effort in liquidity risk management and focuses on maintaining a liquidity surplus in the short term, the Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be suitable to eliminate liquidity risk.

Unaudited accounts may be subject to change

Financial information for the year ended 31 December 2016 of both the Issuer and the Group included in this Offering Circular is based on unaudited management accounts. The preparation of the Issuer and the Group's annual report for the 2016 financial year and of a complete set of financial statements is ongoing and will be subject to approval by the board of directors which is expected to occur in the second quarter of 2017. The Issuer prepared the management accounts based on information available up until 10 March 2017 and on a basis consistent with the accounting policies normally adopted by the Group and applied in preparing the audited financial statements for the year ended 31 December 2015 (except for the effect of the first application in 2016 of IFRS as adopted by the European Union in the non-consolidated accounts). Although the Issuer is not aware of any material or significant misstatement or omission in this financial information, and has no expectation that such misstatement or omissions may be identified, there is the risk that new information becomes available up until the date of the approval of the audited financial statements for the year ended 31 December 2016 that could result in change to this financial information. The audit of the financial statements as of 31 December 2016 is in progress. The audited accounts will become available once the Issuer and the Group's Annual Report and complete set of financial statements becomes available during the second quarter of 2017.

The international financial markets crisis may affect the Issuer's business

Several constraints and challenges remain in the Euro Area. Some of these may come from political factors and other geopolitical developments. In addition to the uncertainties surrounding the exit of the United Kingdom from the European Union, elections in other EU countries in 2017, including the Netherlands, France, Germany and potentially Italy, may have unpredictable outcomes with potentially negative consequences in international financial markets. The possibility of terrorist attacks may also disrupt international financial markets for undetermined periods of time. The Group´s activities and funding ability may therefore be affected by such developments.

Litigation and Conduct risks

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal, and regulatory requirements, ethical issues, and conduct by companies in which the Group holds strategic investments or joint venture partners, which could increase the number of litigations claims and the amount of damage asserted against the Group or subject the Group to regulatory enforcement actions, fines and penalties. Any material legal proceedings, or publicity surrounding such legal or regulatory proceedings, may adversely impact the Group's business, reputation and results of operations.

Risks Related to the Structure of the Notes

The obligations of the Issuer in respect of the Notes are undated, direct, unsecured and subordinated and investors assume an enhanced risk of loss in the event of the Issuer's insolvency

The Notes constitute undated, direct, unsecured and subordinated obligations of the Issuer.

On a Winding-Up of the Issuer, all claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder) will rank junior to the claims of all Senior Creditors of the Issuer and *pari passu* with claims in respect of any Parity Securities. If, on a Winding-Up, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Holders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, Holders will lose some (which may be substantially all) of their investment in the Notes.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders during a Winding-Up of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes.

In addition, as further described below under "*Upon the occurrence of a Trigger Event, the principal amount of the Notes will be Written Down*", the principal amount of the Notes will, in certain circumstances, be Written Down, which may be in part or (save for the one cent floor) in whole and may occur on one or more occasions. In a Winding-Up of the Issuer, the claims of Holders in respect of their Notes will be for the Outstanding Principal Amount at the time of the Winding-Up of the Issuer, which may be less than the Original Principal Amount of the Notes. The Notes do not contain any restriction on the Issuer's ability to issue securities that may have rights similar but preferential to those of the Notes including securities having more favourable, or no, provisions similar to the Trigger Event applicable to the Notes.

Although the Notes have the potential (subject always to the Issuer's right to cancel interest payments) to pay a higher rate of interest than securities which are not subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should a Winding-Up of the Issuer occur.

The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Notes

The Issuer may at any time elect, in its full and sole discretion, to cancel any interest payment (in whole or in part) on the Notes which would otherwise be due on any Interest Payment Date. Additionally, the

Competent Authority has the power to direct the Issuer to exercise its discretion to cancel any interest payment (in whole or in part) on the Notes.

Furthermore, the Issuer will cancel any interest payment (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such interest would: (i) when aggregated with other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceed the Distributable Items of the Issuer; or (ii) when aggregated with other relevant distributions referred to in articles 138.º-AA and 138.º-AB of the Institutions Act which implements article 141 of the CRD IV, cause the Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded.

In addition, if a Trigger Event occurs, the Issuer will cancel all interest accrued up to (and including) the Write Down Date.

With respect to cancellation of interest due to insufficient Distributable Items, see also "*The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes*" below. With respect to cancellation of interest due to the application of a Maximum Distributable Amount, see also "*Payments on the Notes cannot exceed the Maximum Distributable Amount*" below.

Any interest which is cancelled as a result of optional or mandatory cancellation as described above shall not accumulate and shall no longer be due and payable by the Issuer. A cancellation of interest in accordance with the Conditions will not constitute a default of the Issuer under the Notes for any purpose, and Holders will have no right to such cancelled interest, or any amount in respect thereof, at any time (including in a Winding-Up of the Issuer).

If the Issuer elects to cancel, or is prohibited from paying, interest on the Notes at any time, there is no restriction under the terms of the Notes on the Issuer from otherwise paying dividends, interest or other distributions on, or redeeming or repurchasing, any of its other liabilities (including liabilities which rank *pari passu* with, or junior to, the Notes) or any of its share capital. In proposing the interim or final distributions (if any) to be declared in respect of the ordinary shares of the Issuer in respect of any given financial year, the Issuer will have regard to all relevant factors which it considers to be appropriate, including the profitability of the Issuer, its resources available for distribution and the capital and liquidity position of the Issuer at the time of proposing the distribution for approval by the shareholders of the Issuer. According to article 33(1) of the Issuer's by-laws, 20 per cent. of net profits are assigned to legal reserves while the remaining 80 per cent. is distributed as decided by the General Assembly, based on a proposal by the Board of Directors. No dividends have been paid on any of the ordinary shares since 2011. The obligations of the Issuer under the Notes are senior in ranking to the ordinary shares of the Issuer. It is the Issuer's current intention that, whenever exercising its discretion to propose any dividend in respect of the ordinary shares, or its discretion to cancel interest on the Notes, the Issuer will take into account the relative ranking of these instruments in its capital structure. However, the Issuer may at any time depart from this policy at its sole discretion.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication or perceived indication that the CET1 Ratio of the Issuer or the Group is trending towards a failure to meet fully its MREL requirements or the combined capital buffer requirement (the level at which the Maximum Distributable Amount restriction becomes relevant) may have an adverse effect on the market price of the Notes.

The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes

The Issuer will cancel any payment of interest (in whole or in part) which could otherwise be paid on an Interest Payment Date if and to the extent that payment of such interest would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer. Current Distributable Items for the Issuer are calculated by deducting from the capital reduction of €6 billion that took place on 4 January 2017 the sum of outstanding reserves and retained earnings with net income for the Issuer as of 31 December 2016. Therefore, current Distributable Items for the Issuer amount to €1.8 billion.

The level of the Issuer's Distributable Items is affected by a number of factors. The Issuer's future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Notes, are a function of the Issuer's existing Distributable Items and its future profitability. In addition, the Issuer's Distributable Items may also be adversely affected by the servicing of more senior instruments or parity ranking instruments.

The level of the Issuer's Distributable Items may also be affected by changes to accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

The Issuer's Distributable Items, and therefore the Issuer's ability to make interest payments under the Notes, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Issuer's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

Payments on the Notes cannot exceed the Maximum Distributable Amount

No payments will be made on the Notes (whether by way of interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in such legislation and the amount of any Discretionary Reinstatement, where applicable, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the Group to be exceeded.

Under articles 138.º-AA and 138.º-AB of the Institutions Act, institutions which fail to fully meet their combined buffer requirement will be subject to restricted "discretionary payments", including payments relating to CET1 and additional tier 1 instruments and variable remuneration to staff. The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the relevant institution since the last distribution of profits or other relevant "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary payments" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement by the Issuer and/or the Group, it may be necessary to reduce discretionary payments, including potentially cancelling (in whole or in part) interest payments in respect of the Notes.

Pursuant to article 23(5) of Decree Law 157/2014 of 24 October 2014, which has transposed the CRD IV and amended the Institutions Act, restrictions on "discretionary payments" will also apply during the phase-in period to institutions which fail to fully meet their phase-in combined buffer requirements.

Moreover, institutions which fail to fully meet their combined buffer requirements (including those applicable during the phase-in period) will be required to prepare and submit to the competent supervisory authorities a capital conservation plan as provided in Article 138º-AD of the Institutions Act. If the competent supervisory authorities consider that the implementation of the plan would not be reasonably likely to conserve or raise sufficient capital to enable the institution to meet its combined buffer requirements within a period deemed appropriate, the plan will not be approved and the competent supervisory authorities shall require the institution to increase own funds to specified levels within specified periods and/or impose more stringent restrictions on "discretionary payments".

For further details on capital requirements (including those applicable during the phase-in period) please see the above risk factor "*The fulfilment of current and future capital requirements as set out by the European Commission, the European Counsel and the European Parliament (together the "European Authorities") and by the Bank of Portugal and the ECB*".

In addition to Pillar 1 minimum capital requirements and buffer capital requirements, a regulator may impose a Pillar 2 capital requirement on any institution it regulates, such requirement being calibrated individually for such institution to address the specific risk profile of such institution. A Pillar 2 capital requirement can be imposed, increased, decreased or withdrawn by the relevant regulator at any time.

The quantum of any Pillar 2 requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar 2 requirement is 'stacked' below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar 2 requirements in full before capital can be applied to meeting the capital buffers) or 'stacked' above the capital buffers (i.e. the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar 2 requirement) may all impact a bank's ability to make discretionary payments on its tier 1 capital, including interest payments on additional tier 1 instruments.

The interaction between Pillar 2 requirements and the Maximum Distributable Amount restriction has been the subject of much debate in the European Union.

On 16 December 2015, the EBA published opinion EBA/Op/2015/24 on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions (the "**EBA Opinion**"). Amongst other things, the EBA Opinion (which does not have the force of law) included an opinion addressed to EEA competent authorities that they should "e*nsure that the CET1 capital to be taken into account for the MDA calculation is limited to the amount not used to meet the Pillar 1 and 2 own funds requirements of the institution*". In effect, this would mean that Pillar 2 capital requirements would be 'stacked' below the capital buffers, and thus a firm's CET1 capital resources would only be applied to meeting capital buffer requirements after Pillar 1 and Pillar 2 capital requirements have been met in full.

In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "pillar 2 requirements" (stacked below the capital buffers and thus potentially directly affecting the application of an MDA) and "pillar 2 guidance" (stacked above the capital buffers). With respect to pillar 2 guidance, the publication stated that, in response to the stress test results, competent authorities may (amongst other things) consider "*setting capital guidance, above the combined buffer requirement. In cases where capital guidance is* ***provided, that*** *guidance will not be included in calculations of the Maximum Distributable Amount, but competent authorities would expect banks to meet that guidance except when explicitly agreed, for example in severe adverse economic conditions. Competent authorities have remedial tools if an institution refuses to follow such guidance*".

The ECB published a set of "*Frequently asked questions on the 2016 EU-wide stress test*", confirming this distinction between Pillar 2 requirements and Pillar 2 guidance and noting that "*Under the stacking order, banks facing losses will first fail to fulfil their Pillar 2 guidance. In case of further losses, they would next breach the combined buffers, then Pillar 2 requirements, and finally Pillar 1 requirements.*" Pillar 2 requirements are binding and breaches can have direct legal consequences for banks, while Pillar 2 guidance is not directly binding and a failure to meet Pillar 2 guidance does not automatically trigger legal action, even though the ECB expects banks to meet Pillar 2 guidance. Following this clarification, it is understood that Pillar 2 guidance is not expected to trigger the automatic restriction of the distribution and calculation of the Maximum Distributable Amount.

Separately, certain regulatory proposals may restrict the Issuer's ability to make discretionary payments in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. For example, under the Proposals made by the European Commission on 23 November 2016, a firm will be deemed not to have met its combined buffer requirement, and will become subject to the restrictions of Article 141 of CRD IV, where it does not have own funds and eligible liabilities in an amount and quality to meet: (i) its combined buffer requirement, (ii) its 4.5 per cent. Pillar 1 CET1 Capital requirement, (iii) its 6 per cent. Pillar 1 Tier 1 requirement, (iv) its 8 per cent. Pillar 1 capital requirement, and (v) its Pillar 1 MREL requirements. Separately, these proposals also state that where an institution fails to meet or exceed its combined buffer requirement, in making distributions within the "maximum distributable amount", it shall not make distributions relating to CET1 Capital or variable remuneration payments before having made payments on its additional tier 1 instruments. However, these proposals are in draft form and are still subject to the EU legislative process and national implementation and, therefore, it is not clear whether these proposals will be adopted in their current form and there may therefore be a risk that they will negatively impact the Issuer, the Group and the Issuer's ability to make interest payments on the Notes and therefore the value of the Notes.

Any failure by the Issuer and/or the Group to comply with its MREL requirement could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Issuer, including interest payments on the Notes

As outlined in the risk factor "*Payments on the Notes cannot exceed the Maximum Distributable Amount"* above, the regulatory framework around the MREL requirement, including its implementation in Portugal, is not yet in final form and is also the subject of the Proposals. If the Proposals are adopted in their current form, a failure by the Issuer or the Group to comply with the MREL requirement means the Issuer could become subject to the restrictions on payments on additional tier 1 instruments, including the Notes (subject to a potential six month grace period) and an actual or perceived failure to so comply could therefore have an adverse impact on the value of the Notes. If the Issuer becomes subject to these restrictions, the Proposals provide that any discretionary payments on the Notes and other additional tier 1 instruments (which will be subject to the maximum distributable amount restrictions) should be prioritised over distributions on CET1 capital or discretionary employee bonus/pension payments.

According to the Proposal, MREL is to be expressed as a percentage of total risk weighted assets and of the leverage ratio exposure measure. It is proposed that the applicable combined buffer requirements will be positioned above the relevant MREL requirement. Accordingly, any failure by the Issuer or the Group to meet its MREL requirement and the combined buffer requirement with own funds and eligible liabilities could result in, among other things, the imposition of restrictions or prohibitions on discretionary payments by the Issuer, including interest payments on the Notes.

The Notes may be traded with accrued interest, but (i) under certain circumstances described above, such interest will be cancelled and not paid on the relevant Interest Payment Date and (ii) the Issuer retains full discretion to cancel interest otherwise scheduled to be paid on the relevant Interest Payment Date

The Notes may trade, and/or the prices for the Notes may appear, in any trading systems and/or on any stock exchange on which the Notes are for the time being quoted, with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

Upon the occurrence of a Trigger Event, the principal amount of the Notes will be Written Down

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as additional tier 1 capital of the Issuer and the Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions of the Notes. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of any of the Issuer and the Group.

Accordingly, if at any time the CET1 Ratio (calculated and determined as provided in the Conditions) of the Issuer and/or the Group falls below 5.125 per cent. (a "**Trigger Event**"), the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such other period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall:

(a) cancel all interest accrued to (but excluding) the Write Down Date (whether or not such interest has become due for payment and including any interest scheduled for payment on the Write Down Date); and

(b) (without the need for the consent of the Holders) reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

Any such decision shall be binding on the Holders as described in the Conditions.

The relevant Write Down Amount of each Note will be the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments to restore each of the Issuer's and/or the Group's (as applicable) CET1 Ratio to at least 5.125 per cent.; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent.

Write Down of the Notes will be effected, save as may otherwise be required by the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), **provided, however, that**:

(1) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125 per cent. (being the level at which a Trigger Event occurs in respect of the Notes); and

(2) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted (and, in such circumstances, the Write Down Amount may be higher than would otherwise have been the case).

For the avoidance of doubt, where the CET1 Ratio falls below 5.125 per cent., any Loss Absorbing Instruments with a trigger level expressed by reference to a relevant CET1 Ratio falling below a level which is equal to or higher than 5.125 per cent. may be expected to share losses *pro rata* with the Notes until the relevant CET1 Ratio(s) have been restored to 5.125 per cent.

The Write Down of the Notes will affect the claims of the Holders in various respects. Firstly, in the event of a Winding-Up of the Issuer, the claims of the Holders will be in respect of the Outstanding Principal Amount of the Notes at the time of the Winding-Up of the Issuer, and not for the Original Principal Amount. Similarly, upon a redemption of the Notes by the Issuer following the occurrence of a Capital Event or a Tax Event, the redemption amount of each Note will be its Outstanding Principal Amount (together with accrued and unpaid interest) and not its Original Principal Amount. The Issuer is not permitted to redeem the Notes pursuant to Condition 9.2 (*Redemption at the option of the Issuer*), until any principal amount by which the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) have first been reinstated in full pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*); however, that restriction does not apply to a redemption following the occurrence of a Capital Event or a Tax Event.

Secondly, interest will accrue only on the Outstanding Principal Amount of the Notes from time to time, and accordingly for so long as the Outstanding Principal Amount of the Notes is less than their Original Principal Amount, the maximum amount of interest which may be paid by the Issuer (subject always to applicable payment restrictions and interest cancellation as provided above) on any Interest Payment Date shall be less than if no Write Down had occurred.

In addition, as the occurrence of a Trigger Event is linked to the CET1 Ratios of the Issuer and the Group, any actual or perceived reduction in any such CET1 Ratio may have an adverse effect on the market price of the Notes, and such adverse effect may be particularly significant if there is any indication or expectation that any such CET1 Ratio is or may be trending towards 5.125 per cent.

A Write Down may occur on any one or more occasions, and the Outstanding Principal Amount of the Notes may be reduced in part or in whole (save that no Note shall be Written Down below one cent). Holders will not be entitled to any compensation or other payment as a result of any Write Down of the Notes. Accordingly, if a Trigger Event occurs, Holders could lose all or part of the value of their investment in the Notes if the Issuer subsequently redeems the Notes following the occurrence of a Tax Event or a Capital Event or a Winding-Up of the Issuer occurs.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. The determination by the Issuer or the Competent Authority, as applicable, that a Trigger Event has occurred shall be based on information (whether or not published) available to management of the Issuer, including information internally reported within the Issuer, and/or the Group and/or shared with the Competent Authority (as applicable) pursuant to procedures for ensuring effective on-going monitoring of the capital ratios of the Issuer and the Group. Accordingly, whether or not any such CET1 Ratio is trending towards 5.125 per cent. may not be easily visible to Holders or other prospective investors. Accordingly, investors may be unable to predict accurately if and when a Trigger Event may occur. See "*The circumstances surrounding or triggering a Write Down are unpredictable, and there are a number of factors, any of which may be outside the Issuer's control, that could affect the CET1 Ratio of the Issuer and/or the Group*" below.

The Issuer and the Group intend to publish information regarding the regulatory capital ratios of the Issuer and the Group as part of their financial statements each quarter. However, there can be no assurance that the Issuer and the Group will publicly report such information at such intervals or at any other time.

Whilst the Conditions provide for Discretionary Reinstatement of the principal amount of the Notes in certain circumstances, any such Discretionary Reinstatement will be in the sole and full discretion of the Issuer, there is no provision for the automatic Discretionary Reinstatement of the Notes in any circumstances and any Discretionary Reinstatement will be subject to certain restrictions. Discretionary Reinstatement may only occur if each of the Issuer and the Group generates a net profit in any given financial year, and only a specified percentage of the lowest of any such profits will be available for the Issuer to apply (in its sole discretion) to a Discretionary Reinstatement of the Notes. See Condition 8 (*Discretionary Reinstatement of the Notes*) for further details on the calculation of such amount. Further, a Discretionary Reinstatement will not be effected in circumstances where it would cause a Trigger Event, or would result in any Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded. Even if, following a Trigger Event, the Issuer and the Group each record net profits, there can be no assurance that any Discretionary Reinstatement of any part of the principal amount of the Notes will be effected.

The circumstances surrounding or triggering a Write Down are unpredictable, and there are a number of factors, any of which may be outside the Issuer's control, that could affect the CET1 Ratio of the Issuer and/or the Group

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. The CET1 Ratio of the Issuer and the Group can be expected to fluctuate on an on-going basis and could be affected by one or more factors, including, among other things, changes in the mix of the business of the Issuer and/or the Group, major events affecting their respective earnings, distributions payments, regulatory changes (including changes to definitions and calculations of the CET1 Ratio and its components, including CET1 Capital and Risk Weighted Assets) and their ability to manage Risk Weighted Assets.

In making strategic decisions, including in respect of capital management, the Issuer is required to have regard to the interests of all stakeholders in the Issuer as a whole and not to prioritise the particular interests of any group of stakeholders (such as investors in the Notes, other capital providers or its creditors generally). Holders will not have any claim against the Issuer or any other member of the Group in relation to strategic decisions that affect the business and operations of the Issuer or the Group, including if such decisions result in a deterioration in their capital position and an increased risk of the occurrence of a Trigger Event.

Further, the calculation of the CET1 Ratio of the Issuer and/or the Group may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules, whether or not the fundamental data of the Issuer and/or the Group which feeds into such accounting or regulatory framework changes. In addition, the CET1 Ratio of the Group may differ from the CET1 Ratio of the Issuer; the main differences between the individual and the consolidated perimeters are the contributions of other entities of the Group to the consolidated position, in respect of both own funds components (such as retained earnings, reserves and minority interests) and RWA components (credit risk, market risk and operational risk). This could mean that the publication of the CET1 Ratio of the Issuer will not be indicative of the CET1 Ratio of the Group, and *vice versa*. For further details on the calculation of the CET 1 Ratio of the Issuer and the Group see - "*Description of the Issuer - Solvency*".

It will be difficult to predict when, if at all, a Trigger Event may occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of securities without this feature. Any actual or perceived indication that a Trigger Event may occur can be expected to have a material adverse effect on the market price of the Notes.

The Maximum Distributable Amount, Trigger Event and Discretionary Reinstatement are linked to the CET1 Ratio and Net Profits of the Group (as well as those of the Issuer) and accordingly will be affected by the performance of the Group's non-banking businesses as well as the performance of the Group

In addition to the banking activities of the Group, the Group also offers a range of other financial services including commercial and investment banking, insurance, leasing and factoring, asset management, venture capital, financial services and real estate management. Please see "*Description of the Issuer and the Group"* below for further details. As a result, the financial performance of the Group and, therefore, the potential for payment restrictions on the Notes, the occurrence of a Trigger Event and/or Discretionary Reinstatement, will all be affected by or subject to a range of factors affecting those non-banking businesses.

In particular, the calculation of the Group's CET1 Ratio, which is directly linked to a Trigger Event under the Notes and relevant to whether or not the Group is meeting its combined buffer requirement, may be affected by the performance of the insurance business. The investments in the insurance businesses in accordance with the current Portuguese regulation are reflected in the capital adequacy of the Group by way of a deduction and risk weighting approach similar to article 48 of the CRR. Investments in insurance businesses are risk weighted at 250 per cent. within a limit of 10 per cent. of the Group's CET1 Capital and will be deducted from the CET1 Capital for the part of the investment superseding this limit. Negative performance and increased capital needs in the insurance business will have a negative impact on the Group's CET1 Ratio. For a discussion of the phasing-in of Portuguese rules, please refer to the risk factor headed "*The fulfilment of current and future capital requirements as set out by the European Commission, the European Counsel and the European Parliament (together the "European Authorities") and by the Bank of Portugal and the ECB" above.*

As referred to above, the Group also comprises commercial and investment banking, insurance, leasing and factoring, asset management, venture capital, financial services and real estate management and the performance of these businesses will also be recognised in the Group's financial position. Hence, a negative performance in these businesses will negatively impact the financial performance and the CET1 Ratio of the Group.

The Notes may become subject to provisions of the Institutions Act requiring liabilities to be written down or converted into equity

Holders of the Notes may become subject to write down or conversion into equity on any application of the general bail-in tool or non-viability loss absorption tool (as described above), which may result in such Holders losing some or all of their investment. The exercise of the bail-in power or any actual or perceived suggestion of such exercise could, therefore, materially adversely affect the rights of Holders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

For a further discussion of the bail-in tool and Non-viability Loss Absorption Measure, see - "*Potential impact of recovery, resolution measures, Non-viability Loss Absorption Measure and public support on the Issuer's activity*".

The interest rate on the Notes will be reset on each Reset Date, which may affect the market value of the Notes.

The Notes will bear interest at an initial fixed rate of interest to, but excluding, the First Call Date. From, and including, the First Call Date, and on every Reset Date thereafter, the interest rate will be reset to the Reset Interest Rate (as described in Condition 5). This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

The Notes do not contain events of default and the enforcement rights available to Holders under the Notes are limited

The terms of the Notes do not provide for any events of default or any other provisions allowing Holders to accelerate the Notes. Holders may not at any time demand repayment or redemption of their Notes, and enforcement rights for any payment are limited to the claim of Holders in a Winding-Up of the Issuer. In a Winding-Up of the Issuer, the Holder of any Note may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note under the Conditions. In accordance with Portuguese law, a Holder may not itself file for the Winding-Up or bankruptcy of the Issuer.

There is no scheduled redemption date for the Notes and Holders have no right to require redemption. The Issuer may redeem the Notes in certain circumstances.

The Notes have no fixed maturity. The Issuer has no obligation at any time to redeem the Notes, and the Holders have no rights to require redemption or purchase of the Notes by the Issuer at any time.

Provided that any amount of principal Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) has first been reinstated pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*), the Issuer may redeem the Notes (in whole but not in part) in its sole discretion, subject to the approval of the Competent Authority and to compliance with the Capital Regulations, on the First Call Date or any Interest Payment Date thereafter at their Redemption Amount.

Further, following the occurrence of a Capital Event or a Tax Event, the Issuer may redeem the Notes (in whole but not in part) in its sole discretion, subject to the approval of the Competent Authority and to compliance with the Capital Regulations, at any time at their Redemption Amount.

At any time when the Notes may be redeemed by the Issuer or the market anticipates that the redemption right will become available, the market price of the Notes is unlikely to substantially exceed the price at which the Issuer may elect to redeem the Notes. If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Holders may only be able to reinvest the redemption proceeds in Notes with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes at a time when its funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Holders will be able to reinvest the amounts received upon redemption at a rate that will provide as favourable a rate of return as their investment in the Notes.

Limitation on gross-up obligation under the Notes

The Issuer's obligation under Condition 11 (*Taxation*) to pay additional amounts in the event of any withholding or deduction in respect of taxes on any payments under the terms of the Notes applies only to payments of interest and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Holders may receive less than the full amount of principal due under the Notes upon redemption, and the market value of the Notes may be adversely affected.

Substitution and variation

If at any time a Capital Event or Tax Event has occurred and is continuing, the Issuer may at any time, at its option instead of giving notice to redeem the Notes as aforesaid, but solely to the extent permitted at such time by the Capital Regulations and subject to the approval of the Competent Authority, having given not less than 30 nor more than 60 days' notice to the Holders of the Notes, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes **provided that** they remain or become, Qualifying Additional Tier 1 Notes.

Whilst Qualifying Additional Tier 1 Notes must have terms which (as a class) are not materially less favourable to the Holders than the Notes, there can be no assurance that the terms of the substitute or varied Notes will be as favourable to all Holders or each individual Holder in all circumstances.

The Notes are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors

The Notes are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Notes will involve certain increased risks. Each potential investor of the Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;

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

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where such potential investor's financial activities are principally denominated in a currency other than Euros, and the possibility that substantially the entire principal amount of the Notes could be lost in the event of a Write Down or other write down of the Notes;

(iv) understand thoroughly the terms of the Notes (including, in particular, calculation of the CET1 Ratio of the Issuer and the Group, as well as under what circumstances the Trigger Event will occur and the circumstances in which interest payments must be cancelled); and

(v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless they have the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of cancellation of interest and/or Write Down and the value of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular.

Meetings of Holders and modification

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

In addition, the Paying Agent and the Issuer may agree, without the consent of the Holders, to:

(i) any modification (except such modifications in respect of which an increased quorum is required as mentioned in Condition 15 (*Meeting of Holders; Modification*) to the Notes and/or the Conditions which is not prejudicial to the interests of the Holders; or

(ii) subject to Condition 9.7 (*Conditions to redemption etc.*), any modification to the Notes and/or the Conditions which is of a formal, minor or technical nature or is made to correct a manifest error.

Any such modification shall be binding on the Holders.

Because the Notes are held in Interbolsa, investors will have to rely on Interbolsa procedures

The Notes will be issued in uncertificated, dematerialised book-entry form and cleared in Interbolsa, through direct or indirect accounts with Euroclear and Clearstream. Legal title to the Notes will be evidenced by book entries in individual securities accounts established by Affiliate Members of Interbolsa. Transfers of title to the Notes will take place in accordance with Portuguese law and the rules and procedures for the time being of Interbolsa.

Each person who is for the time being shown in individual securities accounts established by an Affiliate Member of Interbolsa as the Holder of a particular principal amount of the Notes shall be treated by the Issuer and the Paying Agent as the Holder of such principal amount of such Notes for all purposes.

Settlement of the Notes is conditional upon the Portuguese State cash injection

As described in the risk factor "*Risks relating to State ownership and State Aid – 2017 Recapitalisation Plan*" above, the Portuguese State will subscribe €2,500 million in cash for ordinary shares in the Issuer on the same date as the Notes (which are the subject of the Offering Circular) are issued. If for any reason the cash for the capital increase is not received on a timely basis on the settlement date then settlement of the Notes may not occur. Any failure to have a timely settlement of the Notes may also lead to grey-market trading in the Notes being unwound and uncertainty which may have a negative impact on the price of the Notes. If the capital increase in cash by the Portuguese State does not occur, the Notes will not be issued and any offering of the Notes will not close.

Risks related to withholding tax applicable to the Notes

The income derived from the Notes held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime laid down in Decree-Law no. 193/2005 of 7 November 2005, as amended (the "**Debt Securities Taxation Act**"), may benefit from an up-front withholding tax exemption, **provided that** certain procedures and certification requirements are complied with (see "*Taxation – Portuguese Taxation*" for these procedures and certification requirements).

In order to benefit from the specific tax regime of the Debt Securities Taxation Act, it is mandatory that the Notes are integrated in and held through (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above **provided that**, in this last case, the Portuguese Government authorises the application of the Debt Securities Taxation Act. Failure to comply with these procedures and certifications will result in the application of the Portuguese domestic withholding rate of 25 per cent. (in case of legal persons), of 28 per cent. (in case of individuals) or of 35 per cent. (in case of payments to (i) omnibus accounts without the disclosure of the effective beneficiary or to (ii) legal persons or individuals domiciled in blacklisted jurisdictions as defined in Ministerial Order 150/2004 of 13 February as amended namely by Ministerial Order (*Portaria*) no. 292/2011 of 8 November 2011), as the case may be, or, if applicable, in reduced withholding tax rates of up to 15 per cent., pursuant to tax treaties signed by Portugal, **provided that** the procedures and certification requirements established by the relevant tax treaty are complied with (see "*Taxation – Portuguese Taxation*").

Risks related to procedures for collection of Holders' details

It is expected that the direct registering entities (*entidades registadoras directas*), the participants and the clearing systems will follow certain procedures to facilitate the collection from the effective beneficiaries of the Notes of the information referred to in "*Risks related to withholding tax applicable to the Notes*" above required to comply with the procedures and certifications required by the Debt Securities Taxation Act. Under the Debt Securities Taxation Act, the obligation to collect from the Holders proof of (i) their non-Portuguese resident status and (ii) their compliance with the other requirements for the exemption to apply rests with the direct registering entities (*entidades registadoras directas*), the participants and the entities managing the international clearing systems. A summary of those procedures is set out in "*Taxation – Portuguese Taxation*". Such procedures and certifications may be revised from time to time in accordance with applicable Portuguese laws and regulations, further clarification from the Portuguese tax authorities regarding such laws and regulations and the operational procedures of the clearing systems. While the Notes are registered by Interbolsa, or by an applicable international clearing system under the Debt Securities Taxation Act, Holders must rely on and comply with such procedures in order to receive payments under the Notes free of any withholding, if applicable. Holders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuer, the Managers, the Paying Agent and the direct registering entities (*entidades registadoras directas*), or the clearing systems, their management entities or participants, assume any responsibility therefor.

Change of law

Changes in law after the date hereof may affect the rights of Holders as well as the market value of the Notes. The Conditions of the Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law except that (i) the provisions relating to subordination, (ii) the form (*representação formal*) and transfer of the Notes, the creation of security interests over the Notes and the Interbolsa procedures for the exercise of rights under the Notes, and (iii) any other write down, write-up or conversion of the Notes (excluding a write-down or a write-up carried out in accordance with Conditions) due to a resolution action applied to the Issuer in accordance with Portuguese law and regulation applicable to the Issuer from time to time, and in each case any non-contractual obligations arising therefrom or in connection therewith, are in each case governed by, and shall be construed in accordance with, Portuguese law. No assurance can be given as to the impact of any possible judicial decision or change to English or Portuguese law or administrative practice after the date of issue of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes, including those described above, could have on the Notes.

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore the Issuer's, performance and financial condition, which could in turn affect the levels of CET1 Capital and Risk Weighted Assets and, therefore, the resulting fully loaded CET1 Ratio and the levels of capital, leverage and additional loss absorbing capacity resources more generally. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group or the Holders, which could be material. For example, the Proposals presented a comprehensive package of reforms to further strengthen the resilience of EU banks. These proposals amend many of the existing provisions set forth in CRD IV, CRR and the BRRD. These Proposals are now being submitted for consideration by the European Parliament and Council. Until such time as the Proposals are formally approved by the European Parliament and Council, there can be no assurance as to whether, or when, the proposed amendments will be adopted and whether they will be adopted in the manner as currently proposed and therefore it is uncertain how they will affect the Issuer, the Group or the Holders of the Notes.

Legality of purchase

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it. Prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on pages i and vii of this Offering Circular.

Risks Related to the Market Generally

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

The secondary market generally

The Notes represent a new instrument for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market for the Notes does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded Notes from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition and/or the CET1 Ratio of the Issuer and/or the Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable or unwilling to pay interest on the Notes in full, or of the Notes being Written Down or otherwise subject to loss absorption or an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results of the Issuer and/or the Group;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Issuer's and/or the Group's strategy is or may be less effective than previously assumed or that the Issuer and/or the Group is not effectively implementing any significant projects;
- changes in financial estimates by Notes analysts;
- changes in market valuations of similar entities;
- announcements by the Issuer and/or the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations or Competent Authority requirements;
- additions or departures of key personnel; and
- future issues or sales of Notes or other securities.

Any or all of these events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer or any member of the Group may (subject to the approval of the Competent Authority and compliance with the Capital Regulations) purchase Notes at any time permitted by applicable law and regulation, they have no obligation to do so. Purchases made by the Issuer or any member of the Group could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, prospective investors should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Offering Circular), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Notes in secondary re-sales even if there is no decline in the performance of the Notes or the financial condition of the Issuer or the Group. The Issuer cannot predict whether these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Although application has been made for the Notes to be admitted to trading on the Luxembourg Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls

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

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal as measured in the Investor's Currency.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes, which bear a fixed rate of interest (which will be reset on each Reset Date), involves the risk that if market interest rates subsequently increase above the relevant rate paid on the Notes, this will adversely affect the value of the Notes.

In addition, a Holder of the Notes is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

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: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit Ratings of the Notes may not reflect all risk

The Notes are expected to be assigned a credit rating of B- by Fitch and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis), although the Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Prospective investors in the Notes should verify at all times the credit ratings of the Issuer and the Notes. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. In addition, rating agency methodologies, and therefore ratings themselves, may change without warning at any time. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time.

If one or more credit ratings are not assigned to the Notes, if the Issuer determines to no longer maintain one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity or market value of the Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The parts specified below of the following documents, which have been previously published or are published simultaneously with this Offering Circular and which have been filed with the Luxembourg Stock Exchange, shall be incorporated in, and form part of, this Offering Circular:

Information incorporated by reference	**Reference**
Caixa Geral de Depósitos, S.A. unaudited annual consolidated and non-consolidated financial information for the year ended 31 December 2016	2016 Financial Information (unaudited) as set out in the press release dated 15 March 2017 ("**2016 Financials**")
Consolidated Balance Sheet	13
Consolidated Income Statement	14
Non-consolidated Balance Sheet	15
Non-consolidated Income Statement	16
Caixa Geral de Depósitos, S.A. audited annual consolidated and non-consolidated financial statements for the year ended 31 December 2015	2015 Annual Report ("**2015 AR**") (audited) pages 144-320
Non-consolidated Balance Sheet	144
Non-consolidated Income Statement	145
Non-consolidated Statement of Comprehensive Income	146
Non-consolidated Cash Flow Statement	147
Non-consolidated Statement of Changes in Shareholders' Equity	148
Consolidated Balance Sheet	149
Consolidated Income Statement	150
Consolidated Statement of Comprehensive Income	151
Consolidated Cash Flow Statement	152
Consolidated Statement of Changes in Shareholders' Equity	153
Notes to the Consolidated Financial Statements	154-335
Audit Reports and Opinions on the Consolidated Financial Statements	336-348

Any other information not listed above but contained in the specified parts of the documents listed above is incorporated by reference for information purposes only. Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Circular. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

The information specified above appearing in such documents shall be incorporated in, and form part of this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Following the publication of this Offering Circular, a supplement to this Offering Circular may be prepared by the Issuer. 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 Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained, upon request, free of charge from the registered office of the Issuer. In addition, such documents will be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

OVERVIEW OF THE NOTES

This Overview of the Notes contains a brief description of certain features of the Notes, and is subject to and qualified in its entirety by the information contained in "Terms and Conditions of the Notes" and the Instrument. Capitalised terms used but not otherwise defined in this Overview of the Notes shall have the meanings given to them under "Terms and Conditions of the Notes".

The Issuer:	Caixa Geral de Depósitos, S.A. (the "**Issuer**" and together with its consolidated subsidiaries, the "**Group**").
Joint Lead Managers:	Barclays Bank PLC, Caixa – Banco de Investimento, S.A., Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc
Paying Agent:	Caixa Geral de Depósitos, S.A.
Agent Bank:	Caixa Geral de Depósitos, S.A.
The Notes:	€500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Temporary Write Down Notes.
Issue Price:	100 per cent. of the principal amount of the Notes.
Issue Date:	30 March 2017.
Status and Subordination:	***Status***
	The Notes will constitute undated, direct, unsecured and subordinated obligations of the Issuer, will at all times rank *pari passu* without any preference among themselves and will be subordinated on a Winding-Up as provided below.
	Subordination
	Claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder) shall at all times, including in the event of a Winding-Up of the Issuer, rank (a) *pari passu* without any preference among themselves and with claims in respect of Parity Securities; (b) in priority to claims in respect of Junior Securities; and (c) junior to any present or future claims of Senior Creditors.
Principal Loss Absorption:	***Trigger Event and Write Down***
	If at any time the CET1 Ratio of any of the Issuer and/or the Group has fallen below 5.125 per cent. (calculated and determined as provided in the Conditions) (such calculation being binding on the Holders) (a "**Trigger Event**"), then the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such other period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall:
	(i) cancel all interest accrued to (but excluding) the Write Down Date (whether or not such interest has become due for payment and including any interest scheduled for payment on the Write Down Date); and
	(ii) (without the need for the consent of the Holders) irrevocably and mandatorily reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and

"**Written Down**" being construed accordingly).

Loss Absorbing Instruments

Write Down of the Notes will be effected, save as may otherwise be required by the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), **provided, however, that**:

(1) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125 per cent. (being the level at which a Trigger Event occurs in respect of the Notes); and

(2) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Issuer is unable to write down or convert any Loss Absorbing Instruments as aforesaid, the Write Down Amount determined in accordance with part (i) of the definition of "Write Down Amount" will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

Write Down Amount

"**Write Down Amount**" means, with respect to each Note, save as may otherwise be required by the Capital Regulations, the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments, in each case in the manner and to the extent provided above under *"Loss Absorbing Instruments"* to restore each of the Issuer's and/or the Group's (as applicable) CET1 Ratio to at least 5.125 per cent. and so that the lower of such CET1 Ratio is 5.125 per cent.; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent (and all references to the "**one cent floor**" in respect of the Notes shall be construed accordingly).

The Outstanding Principal Amount of a Note shall not at any time be reduced to below one cent as a result of a Write Down.

"**Calculation Amount**" means €200,000 in principal amount of each Note.

Cancellation not automatic

If the Outstanding Principal Amount of the Notes is Written Down to one cent, the Notes will not be automatically cancelled.

Write Down may occur on more than one occasion; No default

A Trigger Event may occur on more than one occasion and each Note may be Written Down on more than one occasion. Any such Write Down shall not constitute a default under the terms of the Notes for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

Discretionary Reinstatement:

Discretionary Reinstatement

If, at any time following a Write Down, each Relevant Entity records a positive Net Profit, the Issuer may, in its sole and absolute discretion, increase the Outstanding Principal Amount of the Notes (a "**Discretionary Reinstatement**") by such amount (calculated per Calculation Amount if the Notes are in definitive form) as the Issuer may elect, **provided that** such Discretionary Reinstatement shall not:

(i) result in the Outstanding Principal Amount of the Notes being greater than their Original Principal Amount;

(ii) be operated whilst the Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) result in the Maximum Write-up Amount to be exceeded when taken together with the aggregate of:

(a) any previous Discretionary Reinstatement of the Notes out of the same Relevant Profits since the Reference Date (if any);

(b) the aggregate amount of any interest on the Notes that has been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount;

(c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Relevant Profits concurrently (or substantially concurrently) with the Discretionary Reinstatement and (if applicable) any previous increase in principal amount out of the same Relevant Profits of such Loss Absorbing Written

Down Instruments since the Reference Date; and

(d) the aggregate amount of any interest on such Loss Absorbing Written Down Instruments that have been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Written Down Instruments were issued.

A Discretionary Reinstatement will also not be effected in circumstances in which it would cause any Maximum Distributable Amount then applicable to the Issuer and/or the Group (as further described below) to be exceeded.

The "**Maximum Write-up Amount**" means the higher of (i) and (ii) where:

(i) is the lower of:

A. (a) the Issuer's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Issuer, divided by (c) the total Tier 1 Capital of the Issuer as at the date of the relevant Discretionary Reinstatement; and

B. (b) the Group's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Group, divided by (c) the total Tier 1 Capital of the Group as at the date of the relevant Discretionary Reinstatement; and

(ii) is such other amount as may be permissible pursuant to the Capital Regulations then in force.

Write-up of Loss Absorbing Written Down Instruments

Any Discretionary Reinstatement shall be applied concurrently (or substantially concurrently) and *pro rata* with other write-ups to be effected out of the Relevant Profits in respect of any Loss Absorbing Written Down Instruments.

The Issuer will not reinstate the principal amount of any Loss Absorbing Written Down Instrument that have terms permitting a write-up of such principal amount to occur out of the Relevant Profits on a similar basis to that set out in respect of the Notes unless it does do on a *pro rata* basis with a Discretionary Reinstatement of the Notes.

Discretionary Reinstatement may occur on more than one occasion

A Discretionary Reinstatement may occur on one or more occasions until the Outstanding Principal Amount of the Notes has been reinstated to the Original Principal Amount.

Maximum Distributable Amount:	No payments, or the relevant part thereof, will be made on the Notes (whether by way of principal, interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in articles 138.º-AA and 138.º-AB of the Institutions Act) and the amount of any Discretionary Reinstatement, where applicable, exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group. See "*Risk Factors – The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Notes*".
Interest:	Subject as described below under "*Cancellation of Interest Payments*", the Notes will bear interest on their Outstanding Principal Amount from time to time at the relevant rate of interest, payable quarterly in arrear on 30 March, 30 June, 30 September and 30 December in each year from (and including) 30 June 2017 (each such date for the payment of interest being an "**Interest Payment Date**"). The initial rate of interest shall be 10.75 per cent. per annum, which shall apply from (and including) the Issue Date to (but excluding) the First Call Date. Such rate will be reset on the First Call Date and on each fifth anniversary of the First Call Date (together with the First Call Date, each a "**Reset Date**") as the sum of the applicable 5-Year Mid-Swap Rate (calculated as set out in the Conditions) plus a margin of 10.925 per cent. (the "**Margin**").
Cancellation of Interest Payments:	***Optional cancellation of interest*** The Issuer may elect at any time, in its sole and full discretion, to cancel (in whole or in part) any payment of interest otherwise scheduled to be paid on an Interest Payment Date for an unlimited period of time and on a non-cumulative basis. Non-payment of any amount of interest scheduled to be paid on an Interest Payment Date will constitute evidence of cancellation of the relevant payment, whether or not notice of cancellation has been given by the Issuer. ***Mandatory cancellation of Interest Payments*** (i) Payments of interest in respect of the Notes in any financial year (and, if applicable, any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)) shall only be made out of Distributable Items of the Issuer. The Issuer will cancel any interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of such interest (together with any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)), when aggregated together with any other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceeds the amount of Distributable Items of the Issuer as at such

Interest Payment Date.

(ii) In addition, in circumstances where the provisions of Portuguese law transposing or implementing Article 141 of CRD IV (as amended from time to time) apply, no payments, or the relevant part thereof, will be made on the Notes (whether by way of principal, interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in articles 138.º-AA and 138.º-AB of the Institutions Act) and the amount of any Discretionary Reinstatement, where applicable, exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group.

(iii) The Competent Authority may also direct the Issuer to exercise its discretion to cancel interest (in whole or in part) scheduled to be paid on an Interest Payment Date.

Interest non-cumulative; no default:

If the payment of interest scheduled on an Interest Payment Date is cancelled, in whole or in part, in accordance with the provisions of "*Cancellation of Interest Payments*", the Issuer shall not have any obligation to make such interest payment (or the cancelled part thereof) on such Interest Payment Date or any time thereafter and the failure to pay such interest (or the cancelled part thereof) shall not constitute a default of the Issuer for any purpose.

Any such interest will not accumulate or be payable at any time thereafter, the Issuer will not be obliged to (and will not) make any other payment or settlement in any form in lieu thereof, and Holders of the Notes shall have no right thereto whether in a Winding-Up of the Issuer or otherwise. Any such cancellation of distributions shall impose no restrictions on the Issuer.

No such cancellation of interest shall prevent the Issuer from making payments of interest, dividends or other distributions on, or from redeeming or purchasing, any obligations, including any Junior Securities or Parity Securities.

Redemption:

The Notes have no fixed maturity date.

Subject to the conditions set out herein, the Issuer may, upon giving not less than 30 nor more than 60 days' notice to Holders, in its sole discretion (and without the requirement for the consent or approval of the Holders) elect to redeem the Notes in whole (but not in part):

(i) on 30 March 2022 (the "**First Call Date**") or any Interest Payment Date thereafter, subject to the proviso below; or

(ii) at any time upon the occurrence of a Tax Event or a Capital Event,

in each case at their Redemption Amount; **provided, however, that** if at any time the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*), the Issuer shall not be entitled to exercise its option under (i) above until the principal amount of the Notes so Written Down has been fully reinstated pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*).

Purchase:	Subject to the conditions set out herein, the Issuer or any member of the Group may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise in accordance with the Capital Regulations applicable to the Group in force at the relevant time, and subject to applicable law and regulation.
Conditions to redemption and purchase:	Any redemption of the Notes by the Issuer, and any purchase of the Notes by the Issuer or any member of the Group, will be subject to the prior approval of the Competent Authority in accordance with Article 78 of the CRR as further set out in Condition 9.7 (*Conditions to redemption etc.*). In the case of a redemption of the Notes prior to the fifth anniversary of the Issue Date and as a result of a Tax Event, the tax consequences of such event must also be material and the relevant tax law change must not have been reasonably foreseeable as at the Issue Date. In the case of a redemption of the Notes prior to the fifth anniversary of the Issue Date and as a result of a Capital Event, the change in regulatory classification must not have been reasonably foreseeable as at the Issue Date.
Substitution and variation:	If at any time a Tax Event or a Capital Event has occurred and is continuing, the Issuer may, instead of giving notice to redeem the Notes as aforesaid, but solely to the extent permitted at such time by the Capital Regulations and subject to the approval of the Competent Authority, having given not less than 30 nor more than 60 days' notice to the Holders, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes **provided that** they remain or become, Qualifying Additional Tier 1 Notes (having terms not materially less favourable to a Holder than the terms of the Notes).
Enforcement on a Winding-Up:	There are no events of default under the terms of the Notes. In the case of a Winding-Up of the Issuer, the Holder may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note under the Conditions (including any damages payable in respect thereof). A Holder may not itself file for the Winding-Up of the Issuer. *For the avoidance of doubt, in a Winding-Up of the Issuer the Holders will have a claim for the Outstanding Principal Amount and not for the Original Principal Amount.*
Form and Denomination:	The Notes will be issued in denominations of €200,000 and will be issued in dematerialised book-entry (*forma escritural*) will be in registered (*nominativas*) form. The Notes will be registered with the Central de Valores Mobiliários ("**CVM**"), a Portuguese Securities Centralised System managed and operated by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**").

The Notes will only be issued in dematerialised form. The terms and conditions of the Notes shall be the terms and conditions scheduled to the Instrument, the form of which are set out in this Offering Circular for disclosure purposes. The Notes are constituted by a deed poll given by the Issuer in favour of the Holders dated 30 March 2017 (the "**Instrument**").

Clearing: The Notes will be cleared and settled through Interbolsa (and indirectly through Euroclear/Clearstream). For a summary description of rules applicable to Notes see section "*Notes Held Through Interbolsa*".

Taxation: All payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Portugal or any political subdivision or any authority or agency thereof or therein having power to tax unless such withholding or deduction is required by law. In the event of any such withholding or deduction in respect of payments of interest (but not principal), save as set out in the Conditions, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts of interest received by the Holders after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.

Governing Law: The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law except that (i) the provisions relating to subordination, (ii) the form (*representação formal*) and transfer of the Notes, the creation of security interests over the Notes and the Interbolsa procedures for the exercise of rights under the Notes, and (iii) any other write down, write-up or conversion of the Notes in accordance with Portuguese law and regulation applicable to the Issuer from time to time, and in each case any non-contractual obligations arising therefrom or in connection therewith, are in each case governed by, and shall be construed in accordance with, Portuguese law.

Portuguese Bail-in Power: Notwithstanding any other term of the Notes or any other agreements, arrangements, or understanding between the Issuer and any Holder, by its acquisition of the Notes, each Holder (which, for the purposes of this clause, includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents to and agrees to be bound by: (i) the effect of the exercise of any Portuguese Bail-in Power by the Relevant Resolution Authority, which exercise may result in any of the following, or some combination thereof: (a) the write down or cancellation of all, or a portion, of the Amounts Due on the Notes; (b) the conversion of all, or a portion, of the Amounts Due on the Notes into shares, other securities or other obligations of the Issuer, the Group or another person (and the issue to or conferral on the Holder of such shares, securities or obligations); and (ii) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of the Portuguese Bail-in Power by the Relevant Resolution Authority.

For these purposes, "**Portuguese Bail-in Power**" is any statutory write down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in

	compliance with, any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the Republic of Portugal, in effect and applicable to the Issuer, including the laws, regulations, rules or requirements relating to (i) the transposition of the BRRD (including but not limited to, Law no. 23-A/2015, of 26 March 2015, which amended the Institutions Act) as amended from time to time, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or superseded from time to time (the "**SRM Regulation**") and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of a credit institution or investment firms (or other affiliate of such entities) can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such credit institutions or investment firms or any other person (or suspended for a temporary period);
Listing and trading:	Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to the Official List and admitted to trading on the Euro MTF Market. The Euro MTF Market is not a regulated market for the purposes of MiFID.
Selling Restrictions:	United States (Regulation S), the United Kingdom, Portugal, Spain and Italy. The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the PI Rules other than in circumstances that do not and will not give rise to a contravention of those rules by any person. See the section headed "*Restrictions on marketing and sales to retail investors*" on page vii of this Offering Circular for further information.
Ratings:	The Notes are expected to be rated B- by Fitch.
ISIN:	PTCGDJOM0022
Common Code:	158951185

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes.

1. **Introduction**

1.1 *Notes*: The €500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Temporary Write Down Notes (the "**Notes**") are issued by Caixa Geral de Depósitos, S.A. (the "**Issuer**").

1.2 *Procedures*: The Notes are in book entry form and are constituted by registration in individual securities accounts ("**Securities Accounts**") held by or on behalf of the Holders in Affiliate Members of Interbolsa, and governed by these Conditions and a deed poll given by the Issuer in favour of the Holders dated 30 March 2017 (the "**Instrument**"). The Conditions are an integral part of the Notes and are mentioned in each Securities Account established by or on behalf of the Holders as provided for in number 2 of article 68.º of the Portuguese Securities Code. The Issuer will be the paying agent (the "**Paying Agent**") and agent bank ("**Agent Bank**") in respect of the Notes.

1.3 *Inspection*: The Holders are bound by, and are deemed to have notice of, all the provisions of the Instrument applicable to them. Copies of the Instrument and the Conditions are available for inspection by Holders during normal business hours at the offices of the Issuer.

2. **Definitions and Interpretation**

2.1 *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accounting Currency**" means Euro or such other primary currency used in the presentation of the Issuer's and/or the Group's accounts (as the context requires) from time to time;

"**Amounts Due**" means the Outstanding Principal Amount, together with any accrued but unpaid interest (to the extent that the same is not cancelled) and additional amounts payable pursuant to Condition 11 (*Taxation*), if any, due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Portuguese Bail-in Power by the relevant resolution authority;

"**Additional Tier 1 Capital**" means the Additional Tier 1 capital within the meaning of the Capital Regulations;

"**Administrative Action**" means any judicial decision, official administrative pronouncement or regulatory procedure affecting taxation;

"**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear Bank SA/N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") for the purpose of holding individual securities accounts on behalf of Euroclear and Clearstream, Luxembourg;

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

"**Business Day**" means 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 Lisbon and a day on which the TARGET System is operating;

"**Calculation Amount**" means €200,000 in principal amount of each Note;

A "**Capital Event**" is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Capital Regulations that was not reasonably foreseeable at the time of the Notes' issuance and that has resulted, or would be likely to result, in their exclusion in full or in part from the Issuer's own funds (on either a consolidated or, for so long as the Issuer is required to comply with a solo requirement, a solo basis) (other than as a consequence of write down or conversion, where applicable and other than as a result of any to applicable limitation on the amount of such capital) or their reclassification in full or in part as a lower quality form of the Issuer's own funds (on either a consolidated or, for so long as the Issuer is required to comply with a solo requirement, a solo basis) and that the Competent Authority considers such exclusion or reclassification to be sufficiently certain;

"**Capital Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Issuer or the Group, as the case may be, including, without limitation to the generality of the foregoing, the Institutions Act, any CRD IV Implementation Measures and any other laws, regulations, requirements, guidelines and policies relating to capital adequacy as then applied and interpreted in Portugal by the Competent Authority (whether or not such requirements, guidelines or policies have the force of law and whether they are applied generally or specifically to the Issuer and/or the Group, as applicable);

"**CET1 Capital**" means, at any date, with respect to a Relevant Entity, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of such Relevant Entity as at such date, less any deductions from common equity tier 1 capital required to be made as at such date, in each case as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated applying any applicable transitional provisions provided for in the Capital Regulations;

"**CET1 Ratio**" means, at any date, with respect to a Relevant Entity, the ratio of CET1 Capital of such Relevant Entity as at such date to the Risk Weighted Assets of such Relevant Entity as at such date, expressed as a percentage and calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated applying any applicable transitional provisions provided for in the Capital Regulations;

"**Code**" means the U.S. Internal Revenue Code of 1986;

"**Common Representative**" means, if any, one or more of the eligible persons referred to in Article 357(2) of the Portuguese Companies Code from time to time appointed by the Holders for the administration on behalf of the Holders' joint interests under or in respect of the Notes pursuant and subject to the Conditions and Article 359 of the Portuguese Companies Code;

"**Competent Authority**" means the ECB, the Bank of Portugal, or such other or successor authority which is responsible for prudential supervision and/or empowered by national law to supervise the Issuer and the Group as part of the supervisory system in operation in Portugal;

"**CRD IV**" means 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, as the same may be amended or replaced from time to time;

"**CRD IV Implementation Measures**" means any regulatory capital rules implementing (or promulgated in the context of) the CRD IV or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts or regulations (including technical standards) adopted by the European Commission, national laws and regulations adopted by the Competent Authority and guidelines issued by the Competent Authority, the European Banking Authority or any other relevant authority, which are applicable to the Issuer or the Group, as applicable;

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

"**Debt Securities Taxation Act**" means Decree-Law 193/2005, of 7 November 2005, as amended from time to time, laying down a specific regime for the taxation of certain debt securities ("*valores mobiliários representativos de dívida*");

"**Delegated Regulation**" means the Commission Delegated Regulation (EU) No. 241/2014 of 7 January 2014, supplementing the CRR with regard to regulatory technical standards for Own Funds requirements for institutions, as amended and replaced from time to time;

"**Discretionary Reinstatement**" has the meaning given to such term in Condition 8.1 (*Discretionary Reinstatement of the Notes*);

"**Distributable Items**" means, in relation to interest otherwise scheduled to be paid on an interest payment date, the amount of the profits at the end of the latest financial year immediately preceding such Interest Payment Date plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments (excluding, for the avoidance of doubt, any Tier 2 instruments) less any losses brought forward, profits which are non-distributable pursuant to provisions in Portuguese legislation or the Issuer's by-laws, as applicable, and sums placed to non-distributable reserves in accordance with applicable Portuguese law or the Issuer's by-laws, as applicable, those losses and reserves being determined on the basis of the individual accounts of the Issuer and not on the basis of the consolidated accounts;

"**EUR**", "**Euro**" or "**€**" means the lawful currency of the member states of the European Union that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended;

"**First Call Date**" means 30 March 2022;

"**Full Loss Absorbing Instruments**" has the meaning given to such term in Condition 7.5 (*Full Loss Absorbing Instruments*);

"**Group**" means the Issuer together with its consolidated subsidiaries;

"**Holders**" has the meaning given to such term in Condition 3 (*Form, Denomination, Title and Transfer*);

"**Initial Interest Rate**" has the meaning given to it in Condition 5.1 (*Interest Rate*);

"**Institutions Act**" means the "*Regime Geral das Instituições de Crédito e Sociedades Financeiras*" approved by Decreto-Lei 298/92, of 31 December 1992, as amended, laying down the Portuguese legal regime governing certain aspects of incorporation, organisation and operation of credit institutions, financial companies and investment firms;

"**Interest Payment Date**" has the meaning given to such term in Condition 5.2 (*Interest Payment Dates and Interest Periods*);

"**Interest Period**" has the meaning given to such term in Condition 5.2 (*Interest Payment Dates and Interest Periods*);

"**Issue Date**" means 30 March 2017;

"**Junior Securities**" means, at any time, the CET1 Capital of the Issuer and any other obligations or capital instruments of the Issuer ranking or expressed to rank junior to the Notes;

"**Loss Absorbing Instrument**" means, at any time, any additional tier 1 instrument (other than the Notes) issued directly or indirectly by the Issuer or any other member of the Group which has terms pursuant to which all or some of its principal amount may be written down (whether on a permanent or temporary basis) or converted into equity (in each case in accordance with its conditions) on the occurrence, or as a result, of a trigger set by reference to the relevant CET1 Ratio(s) falling below a specific threshold;

"**Loss Absorbing Written Down Instruments**" means, at any time, any instrument (other than the Notes) issued directly or indirectly by the Issuer or, as applicable, any member of the Group, which is qualifying as Additional Tier 1 Capital of the Issuer or the Group, as applicable, and which, immediately prior to the relevant Discretionary Reinstatement, has a prevailing principal amount lower than the principal amount that it was originally issued with due to such principal amount having been written down on a temporary basis pursuant to its terms;

"**Margin**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Maximum Distributable Amount**" (*montante máximo distribuível*) means any maximum distributable amount relating to the Issuer or the Group required to be calculated in accordance with articles 138.º-AA and 138.º-AB of the Institutions Act, which implements article 141 of CRD IV;

"**Maximum Write-up Amount**" means the higher of (i) and (ii) where:

(i) is the lower of:

A. (a) the Issuer's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Issuer, divided by (c) the total Tier 1 Capital of the Issuer as at the date of the relevant Discretionary Reinstatement; and

B. (a) the Group's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Group, divided by (c) the total Tier 1 Capital of the Group as at the date of the relevant Discretionary Reinstatement; and

(ii) is such other amount as may be permissible pursuant to the Capital Regulations then in force;

"**Net Profit**" means, at any time: (i) with respect to the Issuer, the non-consolidated net profit (excluding minority interests) of the Issuer; and (ii) with respect to the Group, the consolidated net profit (excluding minority interests) of the Group, in each case determined on the basis of the audited annual accounts for the then most recent financial year of the Relevant Entity;

"**Original Principal Amount**" means, in respect of a Note, its principal amount on the Issue Date not taking into account any Write Down or any other write down or cancellation or any subsequent Discretionary Reinstatement;

"**Outstanding Principal Amount**" means, in relation to each Note, the Original Principal Amount of such Note, as reduced from time to time by any Write Downs or any other write down or cancellation, as the case may be, and, if applicable, as subsequently increased from time to time by any Discretionary Reinstatement in accordance with the terms of the Notes;

"**Own Funds**" shall have the meaning assigned to such term in the CRR as interpreted and applied in accordance with the Capital Regulations;

"**Parity Securities**" means any present or future instruments issued by the Issuer which are eligible to be recognised as Additional Tier 1 Capital from time to time by the Competent Authority, and any instruments issued, or other obligations entered into, by the Issuer which rank, or are expressed to rank, *pari passu* with the Notes, but excluding Junior Securities;

"**Portugal**" means the Republic of Portugal;

"**Portuguese Bail-in Power**" is any statutory write down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the Republic of Portugal, in effect and applicable to the Issuer, including the laws, regulations, rules or requirements relating to (i) the transposition of the BRRD (including but not limited to, Law no. 23-A/2015, of 26 March 2015, which amended the Institutions Act) as amended from time to time, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or superseded from time to time (the "**SRM Regulation**") and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of a credit institution or investment firms (or other affiliate of such entities) can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such credit institutions or investment firms or any other person (or suspended for a temporary period);

"**Portuguese Companies Code**" means the Companies Code (*Código das Sociedades Comerciais*) enacted by Decree law no. 262/86, of 2 September 1986, as amended;

"**Portuguese Securities Code**" means the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree law no. 486/99, of 13 November 1999, as amended;

"**Proceedings**" has the meaning given to such term in Condition 19 (*Governing Law and Submission to Jurisdiction*);

"**Qualifying Additional Tier 1 Notes**" means securities (whether debt or equity or otherwise) issued directly by the Issuer or issued by another member of the Group and unconditionally and irrevocably guaranteed by the Issuer where such securities and/or such guarantee, as appropriate:

(i) have terms not materially less favourable to a Holder than the terms of the Notes;

(ii) subject to (i) above, shall (1) rank at least equal to the ranking of the Notes, (2) have the same currency, the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes, (3) have the same redemption rights as the Notes, (4) comply with the then current requirements of the Capital Regulations in relation to Additional Tier 1 Capital, (5) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Notes immediately prior to such variation or substitution (if any); and

(iii) if the Notes were listed on any market(s) or stock exchange(s) immediately prior to such substitution or variation, are listed on the same market(s) or stock exchange(s) or another regulated or unregulated market or stock exchange of equivalent standing;

"**Rate of Interest**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Redemption Amount**" means, in the case of any redemption of the Notes on any redemption date, the Outstanding Principal Amount of the Notes on such redemption date together with interest accrued (if any) from (and including) the Interest Payment Date immediately preceding such redemption date (or, if none, the Issue Date) to (but excluding) such redemption date;

"**Reference Date**" means the accounting date as at which the applicable Relevant Profits were determined;

"**Relevant Date**" has the meaning given to such term in Condition 11.3;

"**Relevant Entity**" means the Issuer or the Group, as the case may be;

"**Relevant Profits**" means the Net Profit of the Issuer or the Group, as the case may be;

"**Reset Date**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Reset Interest Rate**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Relevant Distributions**" means, on any Interest Payment Date, the sum of:

(i) any interest payments on the Notes made or scheduled to be made by the Issuer in the then current financial year of the Issuer; and

(ii) any interest payments or distributions made or scheduled to be made by the Issuer on other instruments qualifying as Additional Tier 1 Capital and (to the extent permitted by prevailing Capital Regulations) CET1 Capital, in the then current financial year of the Issuer;

"**Relevant Resolution Authority**" means any authority with the ability to exercise the Portuguese Bail-in Power;

"**Risk Weighted Assets**" means, at any date, with respect to a Relevant Entity, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of such Relevant Entity (on a consolidated or, as appropriate, non-consolidated basis) as at such date, as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation), in accordance with the Capital Regulations. For the purposes of this definition, the term "risk weighted assets" means the risk weighted assets or total risk exposure amount, as calculated by the Issuer or the Competent Authority (or its appointed agent as aforesaid), as applicable, in accordance with the Capital Regulations;

"**Senior Creditors**" means (a) depositors and other unsubordinated creditors of the Issuer and (b) subordinated creditors of the Issuer (including, without limitation, obligations which are eligible to be recognised as Tier 2 Capital), excluding present or future claims of creditors relating to Parity Securities and Junior Securities;

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

A "**Tax Event**" means:

(i) any amendment to, or clarification of, or change in, the laws or treaties (or any regulations promulgated thereunder) of Portugal or any political subdivision or tax authority thereof or therein affecting taxation,

(ii) any Administrative Action, or

(iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective, or which pronouncement or interpretation is announced, on or after the Issue Date, and in any such case, whereby (a) the Issuer would not be entitled to claim a deduction in computing taxation liabilities in Portugal in respect of any interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be materially reduced, or (b) the Issuer would be required to pay additional amounts on the next Interest Payment Date pursuant to Condition 11.1 (*Taxation*) and, in each case, this cannot be avoided by the Issuer taking reasonable measures available to it;

"**Tier 1 Capital**" means, at any time, with respect to a Relevant Entity, the Tier 1 capital of such Relevant Entity as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations, subject always to applicable transitional and grandfathering arrangements as interpreted by the Competent Authority;

"**Tier 2 Capital**" means the Tier 2 capital of the Issuer within the meaning of the Capital Regulations;

"**Trigger Event**" has the meaning given to such term in Condition 7.1 (*Loss Absorption Following a Trigger Event*);

"**Winding-Up**" means the winding-up and liquidation of credit institutions, financial companies and investment firms carried out in accordance with the provisions of Decree-Law no. 199/2006, of 25 October 2006, as amended and restated from time to time, and/or any other legislation or regulations that may in the future govern the winding up and liquidation of credit institutions, financial companies and investment firms;

"**Write Down**" and "**Written Down**" have the meanings given to such terms in Condition 7.1 (*Loss Absorption Following a Trigger Event*);

"**Write Down Amount**" has the meaning given to such term in Condition 7.4 (*Write Down Amount*);

"**Write Down Date**" has the meaning given to such term in Condition 7.2 (*Write Down Notice*); and

"**Write Down Notice**" has the meaning given to such term in Condition 7.2 (*Write Down Notice*).

2.2 *Interpretation*: In these Conditions:

(i) any reference to principal shall be deemed to include the Outstanding Principal Amount and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) references to Notes being "outstanding" shall be construed in accordance with the Instrument; and

(iv) any reference to a numbered "**Condition**" shall be to the relevant Condition in these Terms and Conditions.

3. **Form, Denomination, Title and Transfer**

The Notes are issued in denominations of €200,000. The Notes which are issued in dematerialised book-entry (*forma escritural*) and are in registered (*nominativas*) form. The Notes are registered with the Central de Valores Mobiliários ("**CVM**"), a Portuguese Securities Centralised System managed and operated by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"). Each person shown in the individual securities accounts held with an Affiliate Member of Interbolsa as having an interest in the Notes shall be considered the holder of the principal amount of Notes recorded therein. Title and other rights to or in respect of the Notes registered in an individual securities account maintained by a Holder in an Affiliate Member of Interbolsa will be evidenced by one or more certificates of title (each a "**Certificate**") issued and delivered to the relevant Holder by such Affiliate Member of Interbolsa upon the request by the relevant Holder and in accordance with that Affiliate Member of Interbolsa's procedures and pursuant to article 78 of the Portuguese Securities Code. Title to the Notes passes upon registration in the relevant individual securities accounts held with an Affiliate Member of Interbolsa. Any Holder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Outstanding Principal Amount of the Notes may be adjusted as provided in Condition 7 (*Loss Absorption Following a Trigger Event*) and Condition 8 (*Discretionary Reinstatement of the Notes*) or as otherwise required by then current legislation and/or regulations applicable to the Issuer.

In these Conditions, "**Holder**" means the person in whose name a Note is registered in the relevant individual securities accounts held with an Affiliate Member of Interbolsa.

4. **Status of the Notes**

4.1 *Status:* The Notes constitute undated, direct, unsecured and subordinated obligations of the Issuer, and will at all times rank *pari passu* without any preference among themselves. The Notes are subordinated as described in Condition 4.2 (*Subordination*).

4.2 *Subordination:* Claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder) shall at all times, including in the event of a Winding-Up of the Issuer, rank:

(i) *pari passu* without any preference among themselves and with claims in respect of Parity Securities;

(ii) in priority to claims in respect of Junior Securities; and

(iii) junior to any present or future claims of Senior Creditors.

4.3 *No Set-Off:* Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes, and each Holder shall, by virtue of its subscription, purchase or holding of any Notes, be deemed to have waived all such rights of set-off.

5. **Interest**

5.1 *Interest Rate*: The Notes bear interest on their Outstanding Principal Amount from time to time from (and including) the Issue Date to (but excluding) the First Call Date at a fixed rate of 10.75 per cent. per annum (the "**Initial Interest Rate**") and thereafter at the applicable Reset Interest Rate (as defined below).

5.2 *Interest Payment Dates and Interest Periods*: Subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*), interest will be payable quarterly in arrear on 30 March, 30 June, 30 September and 30 December in each year from (and including) 30 June 2017 (each an "**Interest Payment Date**").

The period from (and including) the Issue Date to (but excluding) the first Interest Payment Date, and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date, is called an "**Interest Period**". The interest payable (subject as aforesaid) on any Interest Payment Date will be the interest accrued in respect of the Interest Period ending immediately prior to such Interest Payment Date.

5.3 *Reset Interest Rate*: On the First Call Date and each fifth anniversary of such date (together with the First Call Date, each a "**Reset Date**"), the rate of interest will be reset to a fixed rate of interest (each a "**Reset Interest Rate**" and, together with the Initial Interest Rate, each a "**Rate of Interest**") determined in accordance with the following provisions of this Condition 5.3. The Reset Interest Rate determined with respect to a Reset Date shall apply to the Notes from (and including) such Reset Date to (but excluding) the next succeeding Reset Date.

The Reset Interest Rate with respect to any Reset Date shall be the rate of interest determined by the Agent Bank at or around the Relevant Time on the relevant Reset Interest Determination Date as the sum of the relevant 5-Year Mid-Swap Rate converted to a quarterly rate in accordance with market convention (rounded to four decimal places with 0.00005 being rounded down) and the Margin, (**provided that** if the Reset Interest Rate so determined would be less than nil, the Reset Interest Rate in respect of such Reset Date shall be nil).

In this Condition 5.3:

"**5-Year Mid-Swap Rate**" means, with respect to a Reset Date and the relative Reset Interest Determination Date:

(A) the mid-swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the Screen Page at the Relevant Time; or

(B) if such rate does not appear on the Screen Page at the Relevant Time, the Reset Reference Bank Rate on such Reset Interest Determination Date;

"**5-year Mid-Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which: (A) has a term of five years commencing on the relevant Reset Date; (B) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and (C) has a floating leg (calculated on an Actual/360 day count basis) which is equivalent to six-month EURIBOR;

"**30/360**" means, with respect to any period, the number of days in such period to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months;

"**Actual/360**" means, with respect to any period, the actual number of days in such period to (but excluding) the relevant payment date, divided by 360;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration that rate) the based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Margin**" means 10.925 per cent.;

"**Reference Banks**" means five leading swap dealers lending in the interbank market, as selected by the Agent Bank after consultation with the Issuer;

"**Relevant Time**" means, with respect to a Reset Interest Determination Date, at or around 11:00 a.m. (Central European Time) on such Reset Interest Determination Date;

"**Reset Interest Determination Date**" means, with respect to a Reset Date, the day falling two business days prior to such Reset Date, where "**business day**" means for these purposes 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 Lisbon and the TARGET system is operating;

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the relevant Reset Interest Determination Date, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks to the Agent Bank at or around the Relevant Time. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate in respect of the relevant Reset Date will be (i) in the case of each Reset Date other than the First Call Date, the 5-Year Mid-Swap Rate in respect of the immediately preceding Reset Date or (ii) in the case of the First Call Date, 0.266 per cent.; and

"**Screen Page**" means the display page on the relevant Reuters information service designated as in the case of the 5-Year Mid-Swap Rate, the "ICESWAP" page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, in each case for the purpose of displaying equivalent or comparable rates to the 5-Year Mid-Swap Rate.

5.4 *Calculation of Amount of interest*: The amount of interest payable (subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*)) in respect of a Note shall be calculated per Calculation Amount. The amount of interest per Calculation Amount for any period shall be calculated by the Agent Bank by (a) applying the prevailing Rate of Interest to the Calculation Amount, (b) multiplying such sum by the Day Count Fraction and (c) rounding the resultant figure to the nearest cent (half a cent being rounded upwards or otherwise in accordance with applicable market convention). The amount of interest payable (subject as aforesaid) in respect of such Note shall be the amount determined per Calculation Amount multiplied by a fraction, the numerator of which is the Outstanding Principal Amount of such Note and the denominator is the Calculation Amount, without any further rounding.

If, pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) or Condition 8 (*Discretionary Reinstatement of the Notes*) or as otherwise required by then current legislation and/or regulations applicable to the Issuer, the Outstanding Principal Amount of the Notes is reduced and/or reinstated during an Interest Period, the amount of interest will be adjusted by the Agent Bank to reflect interest having accrued on the relevant Outstanding Principal Amount during each part of such Interest Period.

In these Conditions "**Day Count Fraction**" means a fraction the numerator of which is the number of days in the relevant period (from and including the date from which interest begins to accrue to, but excluding, the date on which it falls due, such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) and the denominator of which is 360.

The interest amount which (subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*) shall be payable on each Interest Payment Date up to (and including) the First Call Date will (if paid in full, and assuming no Write Down or other write down of the Notes has occurred) in respect of each Interest Payment Date from (and including) 30 June 2017 to (and including) the First Call Date, amount to €5,375 per Calculation Amount.

5.5 *Determination and notification of Reset Interest Rate*: The Agent Bank will, on each Reset Interest Determination Date, determine the Reset Interest Rate applicable to the corresponding Reset Date. The Paying Agent shall, promptly following determination thereof, cause such Reset Interest Rate to be notified to the Issuer, to the Holders in accordance with Condition 16 (*Notices*) and, if the Notes are listed on a stock exchange and the rules of such exchange so require, to such exchange.

5.6 *Accrual of interest*: Each Note will cease to bear interest from the due date for redemption unless payment of the Outstanding Principal Amount in respect thereof is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition until whichever is the earlier of:

(i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder; and

(ii) the day which is seven days after the Paying Agent has notified the Holders in accordance with Condition 16 (*Notices*) that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

5.7 *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Paying Agent, the Agent Bank or the Reference Banks (or any of them) will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer and the Holders and (subject as aforesaid) no liability to any such person will attach to the Paying Agent, the Agent Bank or the Reference Banks (or any of them) in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

6. **Interest Cancellation**

6.1 *Optional Interest Cancellation*: The Issuer may elect at any time, in its sole and full discretion, to cancel (in whole or in part, as applicable) any payment of interest otherwise scheduled to be paid on an Interest Payment Date for an unlimited period of time and on a non-cumulative basis.

6.2 Mandatory Cancellation of Interest Payments:

(i) Payments of interest in respect of the Notes in any financial year (and, if applicable, any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)) shall only be made out of Distributable Items of the Issuer. The Issuer will cancel any interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of such interest (together with any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)), when aggregated together with any other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

(ii) In addition, in circumstances where the provisions of Portuguese law transposing or implementing Article 141 of CRD IV apply, no payments, or any relevant part thereof, will be made on the Notes (whether by way of interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment, when aggregated together with other Relevant Distributions, any obligation referred to in articles 138.º-AA and 138.º-AB of the Institutions Act and the amount of any Discretionary Reinstatement, where applicable, would exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group.

(iii) The Competent Authority may also direct the Issuer to exercise its discretion to cancel interest (in whole or in part) scheduled to be paid on an Interest Payment Date.

6.3 *Notice of Interest Cancellation*: The Issuer shall give notice to the Holders in accordance with Condition 16 (*Notices*) and to the Paying Agent of any such cancellation of a payment of interest, without undue delay and in any event no later than on the relevant Interest Payment Date, **provided that** any failure to give any such notice shall not affect the cancellation of the relevant interest payment and shall not constitute a default of the Issuer for any purpose. Non-payment of any amount of interest (in whole or in part) scheduled to be paid on an Interest Payment Date will constitute evidence of cancellation of the relevant payment (or the relevant part thereof), whether or not notice of cancellation has been given by the Issuer.

6.4 *Interest non-cumulative; no default*: If the payment of interest scheduled on an Interest Payment Date is cancelled, in whole or in part, in accordance with the provisions of this Condition 6 (*Interest Cancellation*), the Issuer shall not have any obligation to make such interest payment (or the cancelled part thereof) on such Interest Payment Date or any time thereafter and the failure to pay such interest (or the cancelled part thereof) shall not constitute a default of the Issuer under the Notes or for any purpose.

Any such interest will not accumulate or be payable at any time thereafter, the Issuer will not be obliged to (and will not) make any other payment or settlement in any form in lieu thereof, and Holders shall have no right thereto whether in a Winding-Up of the Issuer or otherwise. Any such cancellation of distributions shall impose no restrictions on the Issuer.

7. **Loss Absorption Following a Trigger Event**

7.1 *Loss Absorption Following a Trigger Event*: If at any time the CET1 Ratio of any of the Issuer and/or the Group falls below 5.125 per cent. as determined by the Issuer or the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such determination) (such calculation being binding on the Holders) (a "**Trigger Event**"), then the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such other period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall:

(i) cancel all interest accrued to (but excluding) the Write Down Date (whether or not such interest has become due for payment and including any interest scheduled for payment on the Write Down Date); and

(ii) (without the need for the consent of the Holders) irrevocably and mandatorily reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

For the avoidance of doubt, if the cancellation of interest pursuant to Condition 7.1(i) would result in an increase in the CET1 Ratio of the Issuer and/or the Group (as applicable), any such increase shall be disregarded for the purposes of calculating the Write Down Amount in respect of such Trigger Event.

7.2 *Write Down Notice*: The Issuer shall, as soon as reasonably practicable following the determination that a Trigger Event has occurred, and in any event not more than 5 days following such determination, give notice (which notice shall be irrevocable) to the Holders (the "**Write Down Notice**") in accordance with Condition 16 (*Notices*) and to the Paying Agent stating:

(i) that the Trigger Event has occurred;

(ii) the date on which the Write Down will take effect (the "**Write Down Date**"); and

(iii) if then determined, the principal amount (expressed per Calculation Amount or as a percentage) by which each Note will be Written Down on the Write Down Date.

If the Write Down Amount has not been determined when the Write Down Notice is given, the Issuer shall, as soon as reasonably practicable following such determination, notify Holders of the Write Down Amount in accordance with Condition 16 (*Notices*).

Any failure or delay by the Issuer in giving any such notice to the Holders referred to under this Condition 7.2 (*Write Down Notice*) or the notification to the Competent Authority under Condition 7.1 will not in any way impact on the effectiveness of, or otherwise invalidate, any Write Down, or give Holders any rights as a result of such failure or delay, and shall not constitute a default by the Issuer under the Notes or for any purpose.

7.3 *Loss Absorbing Instruments*: Write Down of the Notes will be effected, save as may otherwise be required by the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes; and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), **provided that**:

(i) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125 per cent. (being the level at which a Trigger Event occurs in respect of the Notes); and

(ii) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Issuer is unable to write down or convert any Loss Absorbing Instruments as aforesaid, the Write Down Amount determined in accordance with part (i) of the definition of "Write Down Amount" will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

7.4 *Write Down Amount*: "**Write Down Amount**" means, on any Write Down Date, the amount by which the then Outstanding Principal Amount of each Note is to be Written Down on such date, being (save as may otherwise be required by the Capital Regulations) the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes; and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments, in each case in the manner and to the extent provided in Condition 7.3 (*Loss Absorbing Instruments*) to restore each of the Issuer's and/or the Group's (as applicable) CET1 Ratio to at least 5.125 per cent. and so that the lower of such CET1 Ratios is 5.125 per cent.; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent (and references herein to the **"one cent floor**" in respect of the Notes shall be construed accordingly).

The Outstanding Principal Amount of a Note shall not at any time be reduced below one cent as a result of a Write Down.

7.5 *Full Loss Absorbing Instruments*: If, in connection with the Write Down or the calculation of the Write Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down or converted into equity in full and not in part only ("**Full Loss Absorbing Instruments**") then:

(i) the requirement that a Write Down of the Notes shall be effected *pro rata* with the write down or conversion into equity, as the case may be, of any such Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written Down in full (or in full save for the one cent floor) simply by virtue of the fact that such Full Loss Absorbing Instruments will be written down or converted in full; and

(ii) for the purposes of calculating the Write Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write down of principal or conversion into equity, as the case may be, among the Notes and such other Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write down or conversion into equity, such that the write down or conversion into equity of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written down or converted into equity *pro rata* with the Notes and all other Loss Absorbing Instruments (in each case subject to and as provided in Condition 7.3) to the extent necessary to restore each of the Issuer's and/or the Group's (as the case may be) CET1 Ratio to 5.125 per cent. or more; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-off or converted into equity, as the case may be, with the effect of increasing the Issuer's and/or the Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

7.6 *Interest accrual*: Following a reduction of the Outstanding Principal Amount of the Notes as described above, interest will accrue on the reduced Outstanding Principal Amount of each Note from (and including) the relevant Write Down Date, and (for the avoidance of doubt) such interest will be subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption following a Trigger Event*).

7.7 *Write Down may occur on one or more occasion; No default:* A Write Down may occur on one or more occasions and accordingly the Notes may be Written Down on one or more occasions (provided however, for the avoidance of doubt, that the principal amount of a Note shall not at any time be reduced to below one cent). Any reduction of the Outstanding Principal Amount pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) shall not constitute a default by the Issuer under the Notes or for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

7.8 *Cancellation not automatic:* If the Outstanding Principal Amount of the Notes is Written Down to one cent, the Notes will not be automatically cancelled.

7.9 *Currency*: For the purposes of any calculation in connection with a Write Down or Discretionary Reinstatement of the Notes which necessarily requires the determination of a figure in the Accounting Currency (or in an otherwise consistent manner across obligations denominated in different currencies), including (without limitation) any determination of a Write Down Amount and/or a Maximum Write-up Amount, any relevant obligations (including the Notes) which are not denominated in the Accounting Currency shall, (for the purposes of such calculation only) be deemed notionally to be converted into the Accounting Currency at the foreign exchange rates determined, in the sole discretion of the Issuer, to be applicable based on its regulatory reporting requirements under the Capital Regulations.

8. Discretionary Reinstatement of the Notes

8.1 *Discretionary Reinstatement of the Notes*: Subject to compliance with the prevailing Capital Regulations, if, at any time while any Note remains Written Down, each Relevant Entity records a positive Net Profit, the Issuer may, in its sole and absolute discretion, increase the Outstanding Principal Amount of the Notes (a "**Discretionary Reinstatement**") by such amount (calculated per Calculation Amount) as the Issuer may elect, **provided that** such Discretionary Reinstatement shall not:

(i) result in the Outstanding Principal Amount of the Notes being greater than their Original Principal Amount;

(ii) be operated whilst a Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) result in the Maximum Write-up Amount to be exceeded when taken together with the aggregate of:

(a) any previous Discretionary Reinstatement of the Notes out of the same Relevant Profits since the Reference Date (if any);

(b) the aggregate amount of any interest on the Notes that has been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount;

(c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Relevant Profits concurrently (or substantially concurrently) with the Discretionary Reinstatement and (if applicable) any previous increase in principal amount out of the same Relevant Profits of such Loss Absorbing Written Down Instruments since the Reference Date; and

(d) the aggregate amount of any interest on such Loss Absorbing Written Down Instruments that have been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Written Down Instruments were issued.

A Discretionary Reinstatement will also not be effected in circumstances in which it would cause any Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded.

8.2 *Notice of Discretionary Reinstatement*: In the event of a Discretionary Reinstatement in accordance with Condition 8.1 (*Discretionary Reinstatement of the Notes*), the Issuer will give notice to Holders in accordance with Condition 16 (*Notices*) and to the Paying Agent not more than ten Business Days following the day on which it resolves to effect such Discretionary Reinstatement, which notice shall specify the amount of such Discretionary Reinstatement (expressed per Calculation Amount or as a percentage) and the date on which such Discretionary Reinstatement will be effected.

8.3 *Write-up of Loss Absorbing Written Down Instruments*: Any Discretionary Reinstatement shall be applied concurrently (or substantially concurrently) and *pro rata* with other write-ups to be effected out of the Relevant Profits in respect of any Loss Absorbing Written Down Instruments.

The Issuer will not reinstate the principal amount of any Loss Absorbing Written Down Instrument that has terms permitting a write-up of such principal amount to occur out of the Relevant Profits on a similar basis to that set out in respect of the Notes unless it does so on a *pro rata* basis with a Discretionary Reinstatement of the Notes.

8.4 *Interest Accrual*: Following a Discretionary Reinstatement in respect of the Notes, interest will accrue on the increased Outstanding Principal Amount of each Note from (and including) the date on which the relevant Discretionary Reinstatement takes effect, and (for the avoidance of doubt) such interest will be subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption following a Trigger Event*).

8.5 *Discretionary Reinstatement may occur on one or more occasions*: A Discretionary Reinstatement may occur on one or more occasions until the Outstanding Principal Amount of the Notes has been reinstated to the Original Principal Amount. Any decision by the Issuer to effect or not to effect any Discretionary Reinstatement on any occasion shall not preclude it from effecting or not effecting any Discretionary Reinstatement on any other occasion.

8.6 *Discretionary Reinstatement at sole and absolute discretion of the Issuer;* A Discretionary Reinstatement shall be operated at the sole and absolute discretion of the Issuer and there shall be no obligation for the Issuer to operate or accelerate a Discretionary Reinstatement in any circumstance.

9. **Redemption and Purchase**

9.1 *No maturity*: The Notes are perpetual securities and have no fixed date for redemption. The Issuer may only redeem the Notes at its discretion in the circumstances described herein. The Notes are not redeemable at the option of the Holders at any time. The Notes shall become immediately due and payable only in the event of the Winding-Up of the Issuer, subject to Condition 4.2 (*Subordination*) above.

9.2 *Redemption at the option of the Issuer*: The Issuer may, at its option (but subject to Condition 9.7 (*Conditions to redemption etc.*)) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 (*Notices*) (which notice shall, subject as provided in Condition 9.8 (*Trigger Event following notice of redemption, substitution or variation*) below, be irrevocable), redeem all (but not some only) of the Notes on the First Call Date or any Interest Payment Date thereafter, at their Redemption Amount; **provided, however, that** if at any time the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*), the Issuer shall not be entitled to exercise its option under this Condition 9.2 until the principal amount of the Notes so Written Down has been fully reinstated pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*).

9.3 *Redemption upon the occurrence of a Capital Event or a Tax Event*: Subject to Condition 9.7 (*Conditions to redemption etc.*), upon the occurrence of a Capital Event or a Tax Event, the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 (*Notices*) (which notice shall, subject as provided in Condition 9.8 (*Trigger Event following notice of redemption, substitution or variation*) below, be irrevocable), redeem all (but not some only) of the Notes at any time, at their Redemption Amount.

The Issuer, having satisfied itself that a Capital Event or a Tax Event has occurred, shall notify the Holders in accordance with Condition 16 (*Notices*) of the occurrence of such Capital Event or Tax Event.

9.4 *Purchase*: Subject to Condition 9.7 (*Conditions to redemption etc.*), the Issuer or any member of the Group may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise in accordance with the Capital Regulations applicable to the Group in force at the relevant time, and subject to applicable law and regulation.

9.5 *Cancellation*: All Notes which are redeemed, all Notes which are purchased and surrendered for cancellation in accordance with Interbolsa regulations and all Notes which are substituted pursuant to Condition 9.6 (*Substitution and variation*), will forthwith be cancelled and cannot be reissued or resold.

9.6 *Substitution and variation*: Subject to Condition 9.7 (*Conditions to redemption etc.*), if a Capital Event or a Tax Event has occurred and is continuing, the Issuer may at any time, at its option (without any requirement for the consent or approval of the Holders), having given not less than 30 nor more than 60 days' notice to the Holders (in accordance with Condition 16 (*Notices*)) and the Paying Agent, substitute all (but not some only) of the Notes for, or vary the terms of the Notes **provided that** they remain or (as appropriate) so that they become, Qualifying Additional Tier 1 Notes.

Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the Qualifying Additional Tier 1 Notes.

9.7 *Conditions to redemption etc.*: The Notes may only be redeemed, purchased, cancelled, substituted, varied or modified (as applicable) pursuant to Condition 9.2 (*Redemption at the option of the Issuer*), Condition 9.3 (*Redemption upon the occurrence of a Capital Event or a Tax Event*), Condition 9.4 (*Purchase*), Condition 9.5 (*Cancellation*) or Condition 9.6 (*Substitution and variation*) or Condition 15 (*Meetings of Holders; Modification*), as the case may be, if:

(i) the Issuer has notified the Competent Authority of, and the Competent Authority has consented to, such redemption, purchase, cancellation, substitution, variation or modification (as applicable);

(ii) the Issuer has obtained the prior permission of the Competent Authority in accordance with Article 78 of the CRR, where either:

(a) on or before such call, redemption, repayment or repurchase (as applicable), the Issuer replaces the Notes with Own Funds instruments of equal or higher quality at terms that are sustainable for its income capacity; or

(b) the Issuer has demonstrated to the satisfaction of the Competent Authority that its Own Funds would, following such call, redemption, repayment or repurchase, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirements ("*requisito combinado de reservas*") as defined in paragraph (g) of article 138.º-B (2) of the Institutions Act by a margin that the Competent Authority considers necessary on the basis of number 3 of article 116.º-C of the Institutions Act; and

(iii) in respect of a redemption prior to the fifth anniversary of the Issue Date (A) in the case of a redemption of the Notes as a result of a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the change in the applicable tax treatment of the Notes is material and was not reasonably foreseeable as at the Issue Date; or (B) in the case of redemption upon the occurrence of a Capital Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date; and

(iv) in the case of a redemption of the Notes as a result of a Tax Event or a Capital Event, the Issuer has available for inspection by any Holder during business hours and upon reasonable notice a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; **provided that**, if the Issuer is not acting as a Paying Agent, such certificate is to be delivered to the Paying Agent (to hold for inspection by any Holder during business hours and upon reasonable notice); and

(v) in the case of a redemption of the Notes as a result of a Tax Event only, the Issuer shall have sought and received (at its own expense) and shall have available for inspection by any Holder during business hours and upon reasonable notice an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail (and such evidence and opinion shall be sufficient to the Paying Agent and conclusive and binding on the Holders),

provided that, as regards Conditions (i) to (iii) above, if, at the time of any redemption, purchase, cancellation, substitution, variation or modification of the Notes, the prevailing Capital Regulations permit such redemption, purchase, cancellation, substitution, variation or modification only after compliance with one or more additional or alternative preconditions to those set out in Conditions (i) to (iii) above, the Issuer shall comply (in addition or, as the case may be, in the alternative) with such additional and/or alternative precondition(s).

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 of the CRR shall not constitute a default of the Issuer under the Notes or for any purpose.

9.8 *Trigger Event following notice of redemption, substitution or variation*: If at any time the Issuer has given notice that it intends to redeem, substitute or vary the terms of the Notes and, prior to the time of such redemption, substitution or variation, a Trigger Event occurs, the relevant redemption, substitution or variation notice shall be automatically rescinded and shall be of no force and effect. Accordingly, the Notes will not be redeemed, substituted or varied on the proposed date therefor, and instead a Write Down of the Notes will occur in accordance with Condition 7 (*Loss Absorption following a Trigger Event*). The Issuer will notify the Holders of such occurrence in accordance with Condition 16 (*Notices*) as soon as reasonably practicable.

9.9 *Notice of redemption following a Trigger Event*: If at any time the Issuer has given a Write Down Notice, the Issuer shall not subsequently give notice that it intends to redeem, substitute or vary the Notes until after the Write Down Date specified in such Write Down Notice shall have passed.

10. Payments

Payments in respect of the Notes will be made by transfer to the account of the Holder maintained by or on its behalf in the relevant Affiliate Member of Interbolsa. If the due date for payment of any amount in respect of any Note is not a Payment Business Day, the Holder shall not be entitled to payment of the amount due until the next succeeding Payment Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. For these purposes, "**Payment Business Day**" means any day on which the TARGET system is operating.

11. Taxation

11.1 *Gross up*: All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Portugal or any political subdivision or any authority or agency thereof or therein having power to tax unless such withholding or deduction is required by law. In the event of any such withholding or deduction in respect of payments of interest (but not principal) (and subject to Condition 6 (*Interest Cancellation)*), the Issuer will pay such additional amounts as shall be necessary in order that the net amounts of interest received by the Holders after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note:

(i) *Other connection*: to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Portugal other than the mere holding of such Note; or

(ii) *Lawful avoidance of withholding*:

(a) to, or to a third party on behalf of, the effective beneficiary of the Notes in respect of whom the information and documentation (which may include certificates) required in order to benefit from the Debt Securities Taxation Act, and any implementing legislation, is not received before the Relevant Date; or

(b) to, or to a third party on behalf of, the effective beneficiary of the Notes (i) in respect of whom the information and documentation required by Portuguese law in order to benefit from the any applicable tax treaty is not received before the Relevant Date, and (ii) who is resident in one of the contracting states; or

(c) to, or to a third party on behalf of (i) an effective beneficiary of the Notes who is a Portuguese resident legal entity subject to Portuguese corporation tax with the exception of entities that benefit from a Portuguese withholding tax waiver or from Portuguese income tax exemptions, or (ii) a legal entity not resident in Portugal acting with respect to the holding of the Notes through a permanent establishment in Portugal except whenever benefits from a Portuguese withholding tax waiver; or

(iii) *Favourable tax regime*:

(a) to, or to a third party on behalf of, the effective beneficiary of the Notes being resident for tax purposes in a country, territory or region subject to clearly a more favourable tax regime included in the list approved by Order No. 150/2004, of 13 February 2004 (*Portaria do Ministro das Finanças e da Administraçao Pública n. 150/2004*) as amended from time to time, issued by the Portuguese Minister of Finance and Public Administration; or

(b) to a third party on behalf of undisclosed effective beneficiaries; or

(iv) *Presentation more than 30 days after the Relevant Date*: in respect of which the Certificate evidencing the title is presented for payment more than 30 days after the Relevant Date except to the extent that the Holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

11.2 All amounts payable in respect of the Notes shall be made subject to compliance with Sections 1471 through 1474 of Code, any regulations or agreements thereunder, including any agreement pursuant to Section 1471(b) of the Code, and official interpretations thereof ("**FATCA**") and any law implementing an intergovernmental approach to FATCA. The Issuer will have no obligation to pay additional amounts or otherwise indemnify a Holder in connection with any such compliance.

11.3 As used herein, the "**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 Paying 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 in accordance with Condition 16 (*Notices*).

12. Enforcement

12.1 There are no events of default in respect of the Notes. Holders shall not be entitled at any time to file for Winding-Up of the Issuer.

12.2 In the case of the Winding-Up of the Issuer, the Holder of any Note may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note (including any damages payable in respect thereof). Such claim shall rank as provided in Condition 4.2 (*Subordination*).

12.3 Subject to Condition 12.1 above and without prejudice to Condition 12.2 above, any Holder may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Notes, **provided that** the Issuer shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

13. Prescription

The Notes will become void unless claims in respect of principal and/or interest are made within a period of 20 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

14. Agents

The Issuer is entitled to appoint, vary or terminate the appointment of any Paying Agent or Agent Bank and/or approve any change in the specified office through which any Paying Agent or Agent Bank acts, **provided that**:

(i) so long as the Notes are listed on any stock exchange or admitted to listing 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 such stock exchange or other relevant authority;

(ii) there will at all times be a Paying Agent and Agent Bank.

The Paying Agent and the Agent Bank act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Holders.

15. Meetings of Holders; Modification

15.1 *Meetings of Holders*: The provisions for the convening and holding of such meetings of Holders are set out in the Instrument, a copy of which is available to Holders for inspection upon request to the Issuer.

Meetings may be convened by the Issuer or, if appointed by the Holder, by a Common Representative. Subject to the terms of the Instrument, meetings shall also be convened by the Issuer or, if appointed by the Holders, a Common Representative if requested in writing by Holders holding not less than 5 per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution (as defined in the Instrument) is two or more persons holding or representing in aggregate more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Notes so held or represented except that the quorum required to pass a special quorum resolution (as defined in the Instrument) (which includes, amongst other things, an Extraordinary Resolution relating to a Reserved Matter) shall be two or more persons holding or representing not less than 75 per cent. in aggregate principal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing not less than 25 per cent. in aggregate principal amount of the Notes for the time being outstanding.

"**Reserved Matter**" means a modification of certain provisions of the Notes (i) an amendment to any date for payment of interest or redemption in respect of the Notes; (ii) a reduction or cancellation in the principal amount or any other amount payable on redemption of the Notes; (iii) a reduction in the rate of interest in respect of the Notes or a variation in the method of calculating the rate or amount of interest or the basis for calculating any interest amount in respect any Note; (iv) a variation of Condition 6 (*Cancellation*) to extend where mandatory cancellation occurs; (v) a variation to any basis for calculating the Redemption Amount of any Note; (vi) a variation to the currency of payments in respect of the Notes or the denomination of the Notes; (vii) modifying the provisions concerning the Write Down and/or Discretionary Reinstatement of the Notes; (viii) a change to the quorum required at any meeting or the majority required to pass an Extraordinary Resolution and (ix) a change to this definition.

Resolutions duly passed at any duly convened meeting of the Holders shall be binding on all the Holders, whether or not they were present at the meeting and whether or not voting in favour.

15.2 *Modification of Notes*: The Paying Agent and the Issuer may agree, without the consent of the Holders, to:

(i) any modification (except such modifications in respect of which a special quorum resolution is required as mentioned above) to the Notes and/or these Conditions which is not prejudicial to the interests of the Holders; or

(ii) subject to Condition 9.7 (*Conditions to redemption etc.*), any modification to the Notes and/or these Conditions which is of a formal, minor or technical nature or is made to correct a manifest error.

Subject as provided in these Conditions, no other modification may be made to the Notes or these Conditions except with the sanction of an Extraordinary Resolution.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

16. Notices

Notices to Holder shall be valid, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, if published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in such other manner as the Luxembourg Stock Exchange or its rules and regulations may prescribe or accept. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Issuer shall comply with any applicable Portuguese law in respect of notices relating to the Notes.

17. Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder, any right in these Conditions shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Notes.

19. Governing Law and Submission to Jurisdiction

19.1 The Notes and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, English law, except that (i) the provisions of Condition 4 (*Status of the Notes*), (ii) the form (*representação formal*) and transfer of the Notes, the creation of security interests over the Notes and the Interbolsa procedures for the exercise of rights under the Notes and (iii) any write down, write-up or conversion of the Notes (excluding a write-down or a write-up carried out in accordance with Condition 7.1 (*Loss Absorption Following a Trigger Event*) and Condition 8 (*Discretionary Reinstatement of the*

Notes)) due to a resolution action applied to the Issuer in accordance with Portuguese law and regulation applicable from time to time, and in each case any non-contractual obligations arising therefrom or in connection therewith, are in each case governed by, and shall be construed in accordance with, Portuguese law.

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

19.3 The Issuer has irrevocably appointed Caixa Geral de Depósitos, London branch at its offices presently located at The Monument Building, 11 Monument Street, London EC3R 8AF, England, as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

19.4 The Issuer hereby irrevocably and unconditionally waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

19.5 Notwithstanding any other term of the Notes or any other agreements, arrangements, or understanding between the Issuer and any Holder, by its acquisition of the Notes, each Holder (which, for the purposes of this clause, includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents to and agrees to be bound by:

(i) the effect of the exercise of any Portuguese Bail-in Power by the Relevant Resolution Authority, which exercise may result in any of the following, or some combination thereof: (a) the write down or cancellation of all, or a portion, of the Amounts Due on the Notes; (b) the conversion of all, or a portion, of the Amounts Due on the Notes into shares, other securities or other obligations of the Issuer, the Group or another person (and the issue to or conferral on the Holder of such shares, securities or obligations); and

(ii) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of the Portuguese Bail-in Power by the Relevant Resolution Authority.

For the avoidance of doubt, the potential write down or cancellation of all, or a portion, of the Amounts Due on the Notes or the conversion of the Notes into shares, other securities or other obligations in connection with the exercise of any Portuguese Bail-in Power by the relevant resolution authority is separate and distinct from a Write Down following a Trigger Event although these events may occur consecutively.

Upon the Issuer being informed or notified by the Relevant Resolution Authority of the actual exercise of any Portuguese Bail-in Power with respect to the Notes, the Issuer shall notify the Holders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Portuguese Bail-in Power nor the effects on the Notes described in this Condition.

The exercise of the Portuguese Bail-in Power by the Relevant Resolution Authority with respect to the Notes shall not constitute an event of default and the Conditions of the Notes shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes subject to any modification of the amount of distributions payable to reflect the reduction of the principal amount, and any further modification of the terms that the Relevant Resolution Authority may decide in accordance with applicable laws and regulations, including the Institutions Act and the SRM Regulation, relating to the resolution of credit institutions, investment firms and/or the Group incorporated in Portugal.

Each holder of the Notes also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Portuguese Bail-in Power to the Notes.

This Condition 19.5 will only apply if English law is no longer deemed to constitute the law of an EEA member state under the provisions of the BRRD as implemented in the Republic of Portugal (including but not limited to, the applicable provisions of the Institutions Act and its implementing regulations) as amended from time to time. The exercise of the Portuguese Bail-Power by the relevant resolution authority pursuant to any relevant laws, regulations, rules or requirements in effect in the Republic of Portugal is not dependent on the application of this Condition 19.5.

20. **Rights of Third Parties**

No person shall have any right to enforce any term or Condition in respect of a Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

NOTES HELD THROUGH INTERBOLSA

General

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

The CVM, managed and operated by Interbolsa, provides for all procedures required for the exercise of all rights carried by the Notes held through Interbolsa.

In relation to each issue of notes, the CVM comprises, *inter alia*, (i) the issue account, opened by the issuer in the CVM and which reflects the full amount of the Note outstanding from time to time; and (ii) the control accounts opened by each of the Affiliate Members of Interbolsa, and which reflect the securities held by such Affiliate Member by or on behalf of the Holders in individual securities accounts.

Notes held through Interbolsa will be attributed an International Securities Identification Number ("**ISIN**" code) through the codification system of Interbolsa. The Notes will be accepted and registered with CVM and settled by Interbolsa's settlement system.

Form of the Notes

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

The Notes will be registered in the relevant issue account opened by the Issuer with the CVM and will be also recorded in control accounts by each Affiliate Member (as defined below) of Interbolsa. Such control accounts reflect at all times the outstanding amount of the Notes held in the individual securities accounts opened with each of the Affiliate Member of Interbolsa. Where used in this Offering Circular, the expression "**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding individual securities accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the securities accounts established in an Affiliate Member of Interbolsa as having title to the Notes shall be treated as the holder of the principal amount of the Notes recorded therein.

Payment of principal and interest in respect of Notes

Whilst the Notes are recorded at the CVM, payment of principal and interest in respect of the Notes 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 the Notes 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 the CVM are credited with such Notes and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the Holders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

Transfer of the Notes

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

Write Down and Discretionary Reinstatement of the Notes held through Interbolsa

A Write Down or a Discretionary Reinstatement of the Notes held through Interbolsa will be processed through Interbolsa. The Issuer must give Interbolsa advance notice that a Write Down or a Discretionary Reinstatement of the Notes will occur and provide it with all the necessary information for that purpose. Interbolsa, on the Write Down Date or on the date on which such Discretionary Reinstatement is to occur, will, in accordance with the rules and procedures of Interbolsa record the Write Down or Discretionary Reinstatement in: (i) the issue account, opened by the Issuer in the CVM and (ii) in the accounts of each Affiliate Member of Interbolsa, whose control accounts with Interbolsa are credited with the Notes. Interbolsa will use a pool factor registration method to record a Write Down or a Discretionary Reinstatement of the Notes, according to which, throughout the life of the Notes the registration is done based on the initially issued principal amount (the "**Original Principal Amount**") but with an indication of the percentage of the amount still outstanding (the "**Pool Factor**"). The Outstanding Principal Amount of the Notes after one or more increases or decreases of the outstanding amount is tracked by the Pool Factor, which when applied to the Original Principal Amount of the Notes registered, determines the actual amount of the Outstanding Principal Amount of the Notes. Accordingly, such records of a Write Down or a Discretionary Reinstatement shall be reflected, respectively, by decreasing or increasing the Pool Factor of the Notes, and that will be reflected consequently on the Outstanding Principal Amount.

Each Affiliate Member shall record in the individual securities accounts of the Holders of the Notes the Outstanding Principal Amount of the Notes held by them. Euroclear and Clearstream, Luxembourg will, in respect of the Notes that are, at such relevant dates, credited in their individual securities accounts opened with an Affiliate Member of Interbolsa, record the Write Down or the Discretionary Reinstatement of the Notes on the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be.

USE OF PROCEEDS

The issue of the Notes will form part of the Issuer's capital base and the net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes and to strengthen the capital position of the Issuer.

DESCRIPTION OF THE ISSUER

History and Introduction

The Issuer was created as a state bank by the legislative charter ("*Carta de Lei*") of 10 April 1876 with the main functions of collecting and administering legally required or judicially ordered deposits and issuing and managing government debt. It gradually expanded its operations to become a savings and investment bank. The Issuer was converted into a state owned joint stock company ("*sociedade anónima de capitais exclusivamente públicos*") on 20 August 1993, by Decree-law no. 287/93, when its name was also changed to Caixa Geral de Depósitos, S.A. The Issuer is a full service bank. Its objects consist of the provision of banking and investment services pursuant and subject to its articles of association and the limitations set out in the legislation applicable to Portuguese credit institutions and investment firms.

The Issuer's registered office is at Av. João XXI, no. 63, 1000-300 Lisbon, Portugal (tel: +351 21 795 30 00 / +351 21 790 50 00). Its share capital is € 1,344,143,735 (following a share capital increase from € 5,900,000,000 to € 7,344,143,735 on 4 January 2017, through the issuance of 288,828,747 new ordinary shares with a nominal value of €5.00 each, fully subscribed for and paid up by the Portuguese State and the simultaneous reduction of such share capital on the same date for the amount of € 6,000,000,000 to € 1,344,143,735 represented by 268,828,747 ordinary shares with a nominal value of €5.00 each. The Issuer is registered in the Commercial Registry Office of Lisbon under the sole registration and taxpayer number 500 960 046.

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

Ownership

The Issuer is a joint stock company ("*sociedade anónima*") and is wholly owned by the Portuguese State. As such, it is also regulated by the legislation applicable to joint stock companies, in addition to legislation applicable to Portuguese credit institutions and investment firms. The Portuguese State ownership of the Issuer is expected to be maintained and reinforced in the current context of the Portuguese financial system. The Issuer has complete autonomy in respect of administrative and financial matters from the Portuguese State.

The 2017 Recapitalisation Plan

The following section of the Offering Circular contains an overview of the Strategic Plan. There can be no assurances that the Issuer will be able to fully implement the Strategic Plan or as to the consequences of missing the targets set out in the Strategic Plan. The factors that may impact the ability of the Issuer to attain the targets in the Strategic Plan are not all within the control of the Issuer. The targets described below have been agreed as part of the agreement reached with DG Comp. They have not been prepared for the purpose of the offering of the Notes and are not, and should not be regarded by potential investors as, a forecast of future performance by the Issuer.

2012 Recapitalisation Plan

In June 2012, the Portuguese State, as the Issuer's sole shareholder, and DG Comp approved the 2017 Recapitalisation Plan in the amount of €1,650 million, which included:

- a capital increase by its shareholder in the amount of €750 million; and
- an issuance of hybrid financial instruments, eligible as core tier 1 capital amounting to €900 million, fully subscribed by the Portuguese State.

The capital injection by the Portuguese State was considered State Aid and subject to an individual State Aid decision by the European Commission (Decision SA.35062 (2012/N)).

2017 Recapitalisation Plan

The Issuer has posted losses after 2012, mostly due to subdued growth in the Portuguese economy that affected credit concession by banks, but also due to the impact of provisions and impairments related to non-performing loans.

In order to be able to continue its activities and also to comply with increasing capital requirements, the Portuguese State, being the Issuer's sole shareholder, approved the 2017 Recapitalisation Plan. The 2017 Recapitalisation Plan (which was specifically designed so as not to trigger State Aid rules) had four main components of which the final requirements are as follows:

- a capital increase in-kind of an estimated amount of €500 million by delivery to the Issuer of the 49 per cent. stake held by Parpública (a Portuguese State holding company) in Parcaixa, SGPS, S.A.;

- a capital increase in-kind of an estimated amount of €900 million plus accrued unpaid interest by delivery to the Issuer of the hybrid financial instruments issued in 2012 (and referred to above);

- a capital increase in cash by the Portuguese State (the final figure of which has been agreed at €2,500 million); and

- the issue of subordinated debt instruments, the final figure of which has been agreed at a principal amount of €930 million (€500 million of which being the Notes the subject of this Offering Circular), to investors not related to the Portuguese State or Portuguese State entities with the issue of the Notes to occur at the same time as the capital increase in cash by the Portuguese State.

The first two components were completed in January 2012 (see – "*Risks relating to State ownership and State Aid - Completion of First Part of the 2017 Recapitalisation Plan*").

In order not to trigger State Aid rules, the 2017 Recapitalisation Plan has two conditions which had to be met: (i) that the Issuer was able to sell the issue of subordinated debt instruments to private investors, and (ii) that the Issuer implemented a Strategic Plan between 2017 and 2020, designed to improve the Issuer's profitability and sustainability and to create value for the shareholder in similar terms to that which would be demanded by private investors in current market circumstances.

The 2017 Recapitalisation Plan and the Strategic Plan were approved by both the European Commission and the Portuguese State without triggering State Aid rules, as confirmed by a public communication issued on 10 March 2017 by the European Commission. Accordingly no State Aid or other similar restrictions apply to the Issuer or the Group. Furthermore, the European Commission stated that it has accepted the early termination of the Issuer's commitment not to pay discretionary coupons on subordinated debt.

Completion of First Part of the 2017 Recapitalisation Plan

The first part of the 2017 Recapitalisation Plan was concluded on 4 January 2017 with an increase in the Issuer's share capital from €5,900,000,000 to €7,344,143,735, through the issuance of 288,828,747 new ordinary shares with a nominal value of €5.00 each to be fully subscribed for and paid up by the Portuguese State, as follows:

- €945,148,185 through the transfer of contingent convertible bonds subscribed for by the Portuguese State in 2012, with a nominal value of €900,000,000 plus accrued, unpaid interest of €45,148,185.

- €498,995,550, (corresponding to the book value of the Portuguese State's equity stake in Parcaixa, SGPS, S.A.), through the transfer in-kind of 490,000,000 equity shares.

In addition, the following steps were taken:

- The use of the free reserves and legal reserve amounting to a total of €1,412,460,251 to cover the same amount of retained losses carried forward from past years.

- A reduction of the Issuer's share capital by an amount of €6,000,000,000, to €1,344,143,735, through the extinguishing of 1,200,000,000 shares with a nominal value of €5.00 each, to cover the retained losses of €1,404,506,311 and to set up a free reserve for the amount of €4,595,493,689.

In addition, on 31 January 2017, eight members of the Board of Directors of the Issuer were elected for a new period of office of four years, one as a non-executive member and seven as executive members. It is intended that further individuals will be appointed to the Board of Directors.

Second Part of the 2017 Recapitalisation Plan

The second part of the 2017 Recapitalisation Plan, which comprises (i) the issue of subordinated debt instruments €500 million of which being the Notes which are the subject of this Offering Circular (ii) the €2,500 million cash injection by the Portuguese State, are expected to take place before the end of the first quarter of 2017. The remaining €430 million of subordinated debt instruments are due to be issued within 18 months following the issue of the Notes which are the subject of this Offering Circular.

The Portuguese State will inject €2,500 million in cash on the same date that the Notes which are the subject of the Offering Circular are issued. In the event that the capital increase in cash by the Portuguese State does not occur, the Notes will not be issued and any offering of the Notes will not close (see – "*Settlement of the Notes is conditional upon the Portuguese State cash injection*").

The €2,500 million cash injection will be accounted for as share capital and will lead to an increase in the Issuer's share capital and common equity tier 1 capital from €1,344,143,735 to €3,844,143,735. The share capital increase will increase *pro tanto* the Issuer's CET1 capital but will have no impact on the Issuer's Distributable Items.

In compliance with the applicable legislation in relation to the incurrence of financial indebtedness by the Portuguese State, the Portuguese Government has been specifically authorised by the Portuguese Parliament under Article 118(5) of the 2017 Budget Act (approved by Law no. 42/2016 of 28 December 2016) to incur financial indebtedness of up to €2,700 million for the purposes of making the cash injection as contemplated by the 2017 Recapitalisation Plan.

Any failure by the Issuer to meet the requirements of the 2017 Recapitalisation Plan may necessitate the Issuer to take additional measures including, but not limited to, pricing adjustments, further cost cutting or divestment of additional foreign assets. Any further capital injections by the Portuguese State may not be possible or may be subject to State Aid rules under European Union regulations. This may result in obligations, restrictions and limitations which may adversely impact the Issuer's activity in comparison with other credit institutions not subject to State Aid procedures including, but not limited to, the application of non-viability loss absorption measures or a requirement for "burden sharing" amongst holders of hybrid capital securities such as the Notes. Any such loss absorption or burden-sharing could have an adverse impact on the value of the Notes. Furthermore, the implementation of the 2017 Recapitalisation Plan may also have an adverse effect on the Issuer's activity, business and results and prospects

Based on the capital position as at 31 December 2016, adjusted for the effect of phasing-in, for the capital increase and reduction performed on 4 January 2017, and taking into account the impact of the €2,500 million share capital increase and the issue of the Notes, the Issuer estimates the Issuer's and the Group's capital ratios to be:

Consolidated Capital Ratios (CRD IV/CRR) (€ millions)

	Phasing - in			
	31.12.2016	01.01.2017	01.01.2017*	01.01.2017**
Own funds				
Common equity tier I (CETI)	3,849.24	3,488.69	3,984.75	6,729.17
Tier I	3,849.82	3,530.55	4,027.67	7,274.27
Total	4,428.51	4,123.97	4,622.13	7,870.93
Risk Weighted Assets	**55,000.06**	**54,938.17**	**55,104.34**	**55,871.57**
Ratios				
CET I	7.0%	6.4%	7.2%	12.0%
Tier I	7.0%	6.4%	7.3%	13.0%
Total	8.1%	7.5%	8.4%	14.1%
	Fully implemented			
Ratios	31.12.2016	01.01.2017	01.01.2017*	01.01.2017**
CET I	5.5%	5.5%	6.6%	11.8%
Tier I	5.5%	5.5%	6.7%	12.7%
Total	5.7%	5.7%	6.9%	12.9%

*** Proforma 1**: in addition to 1 Jan 2017 phasing-in, incorporates the effects of Parcaixa, CoCos and capital reduction of 4 Jan 2017
**** Proforma 2**: in addition to Proforma 1, incorporates effects of capital increase and AT1

Non-consolidated [(1)] Capital Ratios (CRD IV/CRR) (€ millions)

	Phasing - in			
	31.12.2016	01.01.2017	01.01.2017*	01.01.2017**
Own funds				
Common equity tier I (CETI)	2,966.99	2,799.99	3,386.36	6,095.94
Tier I	2,966.99	2,799.99	3,386.36	6,580.38
Total	3,632.37	3,470.39	4,056.77	7,250.79
Risk Weighted Assets	**43,646.63**	**43,639.96**	**43,776.00**	**44,401.00**
Ratios				
CET I	6.8%	6.4%	7.7%	13.7%
Tier I	6.8%	6.4%	7.7%	14.8%
Total	8.3%	8.0%	9.3%	16.3%
	Fully implemented			
Ratios	31.12.2016	01.01.2017	01.01.2017*	01.01.2017**
CET I	6.0%	6.0%	7.3%	13.4%
Tier I	6.0%	6.0%	7.3%	14.6%
Total	6.2%	6.2%	7.6%	14.8%

*** Proforma 1**: in addition to 1 Jan 2017 phasing-in, incorporates the effects of Parcaixa, CoCos and capital reduction of 4 Jan 2017
**** Proforma 2**: in addition to Proforma 1, incorporates effects of capital increase and AT1

[(1)] The non-consolidated financial statements include CGD and its branches (including the activity of the France, London, Spain, Luxembourg, New York, Grand Cayman, Timor, Macau and Zhuhai branches).

Strategic Plan

As mentioned above, the Issuer's 2017 Recapitalisation Plan includes a Strategic Plan to be implemented by the Issuer between 2017 and 2020. The Strategic Plan outlines the Issuer's strategy until 2020.

The following section of the Offering Circular contains an overview of the Strategic Plan. There can be no assurances that the Issuer will be able to fully implement and meet all of the targets of the Strategic Plan and the consequences of missing the targets set out in the Strategic Plan are set out below. The factors that may impact the ability of the Issuer to fully implement all of the targets in the Strategic Plan are not solely in the control of the Issuer. The targets described below are not forecasts and are not indicative of any expectation of performance by the Issuer.

Some of the key background assumptions to the Strategic Plan are as follows:

- The Strategic Plan is based on a prudent macroeconomic scenario, namely with negative interest rates through 2020;
- The Strategic Plan assumes no fundamental changes in market share or launches of new lines of activity, so there is little dependence on growth assumptions which may be less in control of the management team;
- The Strategic Plan assumes there is significant restructuring of the operational platform, which corresponds to levers under control of the management team;
- The restructuring of the international footprint, based on criteria of economic and strategic rationale, will simplify and de-risk the Issuer's subsidiary portfolio;
- The Strategic Plan includes an enhancement of the Group's risk management practices, aimed at aligning the Issuer with market best practices;
- The evaluation of the loan and securities book will allow for the operation of normalised cost of risk; and
- Governance and remuneration conditions have been reviewed to allow for the Issuer to compete as a market player.

The goal of the measures contained in the Strategic Plan is to improve the overall performance of the Issuer in order to ensure its long-term sustainability and the creation of value for its shareholder. As such, it builds on the following principles:

- Maintaining the Issuer's current leading position in the Portuguese market without fundamentally changing its current business model as a global bank;
- Increasing the operational efficiency of its domestic operations, combining it with the simplification of the group structure and the restructuring of the international portfolio;
- Targeting attractive returns for the shareholder (greater than 5 per cent. as of 2018 and greater than 9 per cent. as of 2020);
- Strengthening the Group's solvency levels to aim for CET1 above 12 per cent. as of 2018 and above 14 per cent. as of 2020 on a consolidated basis;
- Maintaining an independent and accountable governance and management model.

The Strategic Plan builds upon four strategic pillars which are described below. Associated with each pillar are selected metrics. These are targets and they are not forecasts. The targets are part of the Strategic Plan that was validated by DG Comp and was one of the conditions required to be met in order for the 2017 Recapitalisation Plan not to be considered State Aid.

The Issuer will ensure that the full and correct implementation of the Strategic Plan is continually monitored by an independent auditing institution and, on a quarterly basis, the Issuer will provide to DG Comp a report (which will also be validated by such independent auditing institution) covering the financial and operational drivers of the Strategic Plan and an overview of the Issuer's performance compared with the targets. If any of the targets are not met, the Issuer is committed to take all necessary measures (including, but not limited to, pricing adjustments, further cost cutting or divestment of additional foreign assets) to ensure those targets are achieved.

Pillar 1

The first pillar of the Strategic Plan is based on the restructuring of the Issuer's asset portfolio and on the strengthening of its risk management model with the aim of improving the solvency and resilience of the balance sheet.

Pillar 1 of the Strategic Plan is to be carried out through a set of initiatives aimed at ensuring that the risk management of the Issuer corresponds to the highest international and regulatory standards and that a cost efficient risk business model is put in place. For these purposes, the following measures shall be implemented:

- Integrating finance and business priorities with risk management, including in the context of strategy/risk appetite, budgeting and performance management;
- Implementing a full "three-lines-of-defence" risk management model;
- Upgrading the compliance and audit infrastructure;
- Revising all the risk management processes;
- Improving the quality of capital measurement models;
- Improving the legacy assets management; and
- Strengthening credit monitoring and recovery.

The process of turning these initiatives into short and medium-term actions has already been started. In particular, a detailed set of underwriting and NPL operational plans have been drawn up.

Furthermore, the Issuer will explore the creation of a separate unit with dedicated management to oversee legacy real estate assets; if progressed, it should lead to a more efficient recovery process and allow the Issuer's management team to focus on the Issuer's ongoing strategy and operations.

Based on the set of initiatives described above, the Issuer is targeting the following:

- A Non Performing Exposure ratio from 16 per cent. in 2016 to a level at or below 12 per cent. by 2018 and 8 per cent. by 2020. This ratio is determined by calculating non-performing exposures as a proportion of total portfolio. Non performing exposures are material exposures which are more than 90 days past-due, including on-balance sheet and off-balance sheet exposures. Total portfolio includes debt instruments at amortised cost and irrevocable off-balance sheet exposures.
- A Texas ratio at or below 80 per cent. by 2018 and 70 per cent. by 2020. This ratio is determined by calculating by non-performing exposures as a proportion of the aggregate of Tangible Equity and Impairments in the balance sheet.
- A cost of risk ratio at or below 0.6 per cent. by 2018 and 2020. This ratio is calculated in accordance with the following formula:

$$\frac{\text{Yearly Credit Impairment}_n}{\text{Average (Credit Portfolio}_{n-1};\text{Credit Portfolio}_n)}$$

As a result of the measures described above, the Issuer is targeting an improvement in its risk assessment procedures, which in turn will result in a lower expected cost of risk for new loans. It is expected that the additional coverage for non-performing loans reflected in the 2016 provisions and impairments will allow the Issuer to bring the average cost of risk down more quickly.

Pillar 2

The second pillar of the Strategic Plan focuses on the adjustment of the domestic operational infrastructure of the Issuer to increase efficiency.

The key initiatives to be implemented in order to adjust the operational infrastructure focus on:

- Reducing the number of branches by 170, to below 550 by 2018 and below 480 by 2020 and maintaining a market share of branches at around 14 per cent.;
- Reducing headcount by 2,200 to below 7,750 by 2018 and below 6,650 by 2020;
- Reduction of external service expenses;
- Improving the management of Human Resources, including training; and
- Improving service levels and customer service through process digitalisation.

Based on the set of initiatives described above, the Issuer is targeting the following:

- To reduce domestic operational costs from €834 million in 2016 to a level below €780 million by 2018 and below €720 million by 2020, an overall reduction of 20 per cent.; and
- To reduce the domestic cost-to-income ratio from 82 per cent in 2016 to a level at or below 58 per cent. by 2018 and 43 per cent. by 2020.

The targeted reduction in costs is mostly associated with the expected reduction in the number of domestic employees. This is in addition to the reduction that followed the last headcount reduction programme that was completed in 2016, the effects of which are expected to be realised in 2017. In addition to the headcount reduction, costs are also expected to reduce through a programme of external service expense reduction.

Pillar 3

Pillar 3 is centered on the restructuring of the international portfolio with the aim of focusing on selected geographies.

The Issuer's international portfolio has to date been mainly composed of nine subsidiaries and nine branches. Within the overarching principle of reducing international risk and focusing on core geographies with business affinity to Portugal, the Issuer will carry out a focused approach, ensuring a review of the business and governance models of assets to keep and sell and divest assets in non-core geographies.

Based on the approach described above, the Issuer is targeting the following:

- To reduce the number of international entities (including branches and subsidiaries) from 28 to a maximum of 15 by 2020;
- To reduce assets related to international activity from €23 billion in 2016 to a level at or below €12 billion by 2020;
- To reduce the cost to income related to international activity from 52 per cent. in 2016 to a level at or below 50 per cent. by 2018 and 45 per cent. by 2020; and
- To increase the return on equity of the international activity from 13 per cent. in 2016 to a minimum of 15 per cent. by 2018 and 15 per cent. by 2020.

Pillar 4

Pillar 4 of the Strategic Plan focuses on the modernisation of the commercial franchise of domestic operations to ensure sustainability.

The key initiatives of this pillar include:

- The revision of the segmentation and upgrade of the retail offer;
- Digitalisation of the customer experience;
- Revision of bancassurance and asset management models to support retail value propositions and the penetration of off-balance sheet products;
- The definition of a plan to improve share of wallet in small and medium sized enterprises, capturing treasury and/or cash-management fees;
- The introduction of a risk- and capital- adjusted performance management system; and
- Credit process optimisation.

Based on the set of initiatives described above, the Issuer is targeting the following for the activities in Portugal:

- Maintaining its business market share at around 24 per cent.;
- To increase net interest income from €635 million in 2016 to a level at or above €900 million by 2018 and €1.1 billion by 2020;
- To increase net interest margin from 0.6 per cent. in 2016, to above 0.8 per cent. by 2018 and above 1.1 per cent. by 2020;
- To increase commissions as a percentage of total deposits and credit from 0.35 per cent. to a level at or above 0.40 per cent. by 2018 and 0.45 per cent. by 2020; and
- To increase operating income as a percentage of the business volume (loans and deposits, excluding non-recurring items), from 1 per cent. in 2016 to above 1.3 per cent. by 2018 and above 1.5 per cent. by 2020.

In terms of net interest income and expense, market shares are assumed to be stable across most products and years, consistent with the overarching view of the Strategic Plan that the Issuer will remain a universal bank focused on the retail market. The plan projects modest increases in the Issuer's market share in areas where its current share is significantly below where it would expect to be (for example consumer credit and lending to SMEs). The plan also anticipates selected deleveraging in large corporate exposures and real estate.

The increase in net interest income is expected to come mainly from three different sources: (i) a reduction in the cost of retail funding, as term deposits are refinanced at much lower rates; (ii) a reduction in the cost of wholesale funding, as some capital markets transactions issued in the last four years, with higher interest rates, are expected to mature without the need to be refinanced, therefore reducing their weight in the overall cost of funding; and (iii) the increase of operations in segments with a higher interest margin, such as SMEs and consumer loans, where the Issuer expects to increase its market share.

For more information please refer to the Issuer's Announcement made on 13 March 2017 on CMVM website - http://web3.cmvm.pt/sdi/emitentes/docs/FR63344.pdf.

Corporate Governance

Since 31 August 2016, the Issuer has had a corporate governance model which ensures effective separation between management and oversight functions. The Issuer's corporate bodies are the General Meeting (*Assembleia Geral*), the Board of Directors (*Conselho de Administração*), the Supervisory Board

(*Conselho Fiscal*), the Statutory Auditor Firm (*Sociedade de Revisores Oficiais de Contas*) and the Secretary (*Secretário*).

The General Meeting is conducted under the direction of a General Meeting Board (*Mesa da Assembleia Geral*). The members of the General Meeting Board, Board of Directors, Supervisory Board and the Statutory Audit Firm are elected by the General Meeting. As the Portuguese State holds the entire share capital of the Issuer, all such members are selected by the Portuguese State. The Secretary is, however, appointed by the Board of Directors.

The Members of the Issuer's corporate bodies are appointed for a period of four years and may be re-elected. The maximum number of successive terms of office of the members of the Board of Directors cannot exceed four terms in accordance with the Issuer's articles of association.

The Board of Directors is responsible for the management, administration and representation of the Issuer. The Board of Directors appoints the Executive Committee to which the Board of Directors delegates wide management powers and the day-to-day management of the Issuer.

The oversight functions are entrusted to the Supervisory Board, whose powers include, supervising the management, ensuring compliance with the law and with the Issuer's articles of association, verifying the accounts, supervising the procedure for preparing and disclosing financial information and the examination and auditing of the Issuer's financial statements as well as supervising the independence of the Statutory Auditor Firm whose primary function is to examine and certify the accounts.

Board of Directors

On 31 January 2017, the following members of the board of directors of the Issuer were elected, for the 2017-2020 period of office. The Board of Directors so elected has appointed the Executive Committee.

The members of the Board of Directors of the Issuer are the following:

Non-executive chairman:	Emílio Rui da Veiga Peixoto Vilar
Vice-chairman and CEO:	Paulo José de Ribeiro Moita de Macedo
Executive member:	Francisco Ravara Cary
Executive member:	João Paulo Tudela Martins
Executive member:	José António da Silva de Brito
Executive member:	José João Guilherme
Executive member:	Maria João Borges Carioca Rodrigues
Executive member:	Nuno Alexandre de Carvalho Martins

All the members of the Board of Directors elected took up office on 1 February 2017, except for Maria João Borges Carioca Rodrigues who did so on 6 March 2017.

In addition, on 17 March 2017, the following members of the board of directors of the Issuer were elected as non-executive members for the 2017-2020 period of office, with effect from 20 March 2017:

Non-executive member:	Ana Maria Machado Fernandes
Non-executive member:	Maria dos Anjos Melo Machado Nunes Capote
Non-executive member:	João José Amaral Tomaz
Non-executive member:	José Maria Monteiro de Azevedo Rodrigues

The Board of Directors will be composed of a number of further members. The Issuer has already assessed the suitability of three more candidates as members of the Board of Directors, two of them to perform the roles of non-executive members, who are still being assessed in accordance with the fit and proper authorisation procedure by the ECB and the Bank of Portugal.

General Meeting Board

The following are the members of the General Meeting Board of the Issuer appointed for the period 2016 to 2019:

Chairman:	Paulo Mota Pinto
Vice-Chairman:	Elsa Roncon Santos
Secretary:	José Lourenço Soares

Supervisory Board

The following are the members of the Supervisory Board of the Issuer, appointed for the period 2016 to 2019:

Chairman:	Guilherme Valdemar Pereira de Oliveira Martins
Member:	António Luis Traça Borges de Assunção

The Issuer has already assessed the suitability of two candidates as members and alternate member of the Supervisory Board who are still being assessed within the fit and proper authorisation procedure by the ECB and the Bank of Portugal.

The Statutory Auditor Firm

The current acting statutory auditors are

- Oliveira Rego & Associados, SROC.
- Álvaro, Falcão & Associados, SROC deputises as statutory auditors.

The term of office of the statutory audit companies was from 2013 to 2015. The process to replace the statutory audit firms is ongoing. The Statutory Auditor Firm shall be elected by the General Meeting following a proposal of the Supervisory Board.

Relationship with the Portuguese State

The Issuer provides the Portuguese Government with banking and investment services in competition with other banks. The Issuer is also able to undertake any other functions which have been specifically given to it by law, the manner and terms of which are defined in contracts entered into with the Portuguese Government.

The rights of the Portuguese State as shareholder are exercised by a representative appointed in accordance with a regulation issued by the Portuguese Minister of Finance.

The Issuer and its sole shareholder are required to comply with the principles of corporate governance established under the Decree Law 133/2013, of 3 October, as lastly amended by Law 42/2016, of 28 December, which aims to establish best practices of corporate governance in state-owned companies and to ensure that the control exercised by the Portuguese State is not abused.

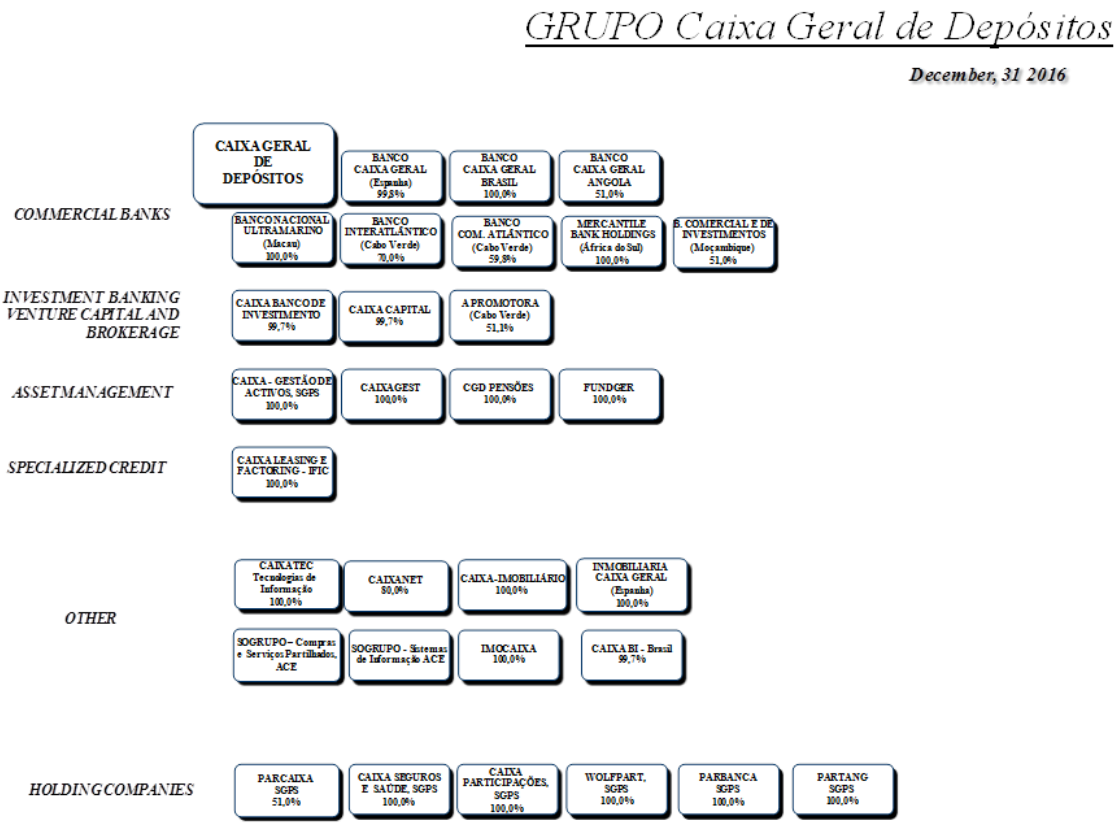
These rules provide, amongst other things, that: (i) the exercise of the Portuguese State's rights as shareholder should observe high standards of transparency and therefore the members of the Government who exercise the shareholding rights of the Portuguese State shall be clearly identified; (ii) the Portuguese State shall establish the strategic guidelines and the targets to be met by the Issuer and shall actively participate in the general shareholders' meetings; (iii) the Portuguese State shall contribute to the establishment of principles of social responsibility and sustainable development and compliance by the Issuer with these principles should be evaluated annually by the Portuguese State; (iv) the Portuguese

State should ensure that the Issuer has adequate control and evaluation mechanisms, so that the economic and financial information provided is accurate and reflects the actual situation of the Issuer and that it complies with best international and national corporate governance practices; (v) the structures of the administration and supervision boards; (vi) remuneration and other rights; (vii) conflicts of interest and disclosure of material information and (viii) the Portuguese State shall act with independence regarding the appointment of executive directors and also when acting as a client or as a service provider whilst taking into consideration market conditions.

Pursuant to Decree-law 287/93 of 20 August 1993, as amended, the Issuer must at all times be owned by the Portuguese State. The Issuer may, on a contractual basis, undertake special functions considered to be of national interest.

Group Structure

Set out below is a chart detailing the principal activities and companies within the Group, showing the Issuer's or its subsidiaries' equity interest where appropriate, as at 31 December 2016.



Market Position

The statements in this section relating to the market position of the Issuer are based on calculations made by the Issuer using data produced by itself and/or obtained from other entities and that are contained or referred to in the financial statements prepared in accordance with the applicable financial reporting framework, by adding or subtracting amounts from the figures presented in the financial statements set out in the Annual Report of the Issuer for 2015 and/or in the Press Release 'Consolidated results for 2016 (Unaudited financial information)' of the Issuer as at 31 December 2016 (available at www.cmvm.pt and www.cgd.pt) incorporated by reference into this Offering Circular.

The Issuer is engaged in all areas of the Portuguese financial sector. It provides customers with a full range of financial products and services, ranging from traditional banking to investment banking, insurance, asset management, venture capital, brokerage, real estate and specialised credit services.

The Group aims to maintain its current position in Portugal. It intends to achieve this through its network of 1,211 branches of which 718 are located in Portugal and 493 are located abroad. As for its domestic office network, 47 branches were closed in 2016, 651 remained physical branches, 40 became self-service branches and 26 became corporate offices.

During 2015 and 2016, the Group had a leading position in most segments and key products such as the individual domestic customers segment in Portugal, in terms of both deposits made with the Issuer and mortgages provided. In respect of the Issuer's banking operations, it held a market share of 27.74 per cent. in the client deposits segment and a market share of 31.07 per cent. in the individual customers segment as at November 2016. In terms of total assets, the Group had a market share of 25.1 per cent. in the Portuguese banking system as at June 2016.

The Issuer's domestic market share of loans and advances to customers, as at November 2016 was 23.43 per cent. in comparison to the preceding year which was 23.24 per cent. The Issuer's market share of the corporate and individual customer segments was 20.71 per cent. as at November 2016 in comparison to the preceding year which was 19.82 per cent., and its market share of mortgage loans was 28.13 per cent. as at November 2016 in comparison to the preceding year which was 28.40 per cent.

The Group carries out domestic investment banking operations, through its investment bank (CaixaBI).

According to APFIPP, Caixagest (Caixagest – Técnicas de Gestão de Fundos, S.A.), the Group's asset manager, was active in the fund management sector for both private and institutional customers. As at 31 December 2016, it held a market share of 31.7 per cent. in the securities investment funds and 39.1 per cent. in asset management activity. As for pension funds management, CGD Pensões, Sociedade Gestora de Fundos de Pensões, S.A. ("**CGD Pensões**") held a market share of 19.1 per cent. against 18.9 per cent. in 2015. Fundger, the Group´s real estate investment fund, held a market share of 10.4 per cent. on total assets under management.

In 2016, the Issuer was considered the most valuable banking brand in Portugal according to Brand Finance.

The Issuer is a member of the European Savings Banks Group, the Credit Local d'Europe and the EU's Committee of Clearing Banks. The Group forms the largest Portuguese financial group, by reference to its consolidated assets.

The Issuer continues to focus on developing its client base, and currently offers a wide range of financial products and services to its customers. The development of cross-selling of group company products through its branch network continues to be one of the main objectives of the Group in the future.

Overview of the Issuer's strengths

The Issuer is a market leader in retail banking in Portugal, with approximately 4 million customers, representing 39 per cent. of the Portuguese population. It also has a selected international presence including Cape Verde, Angola, Mozambique, São Tomé e Príncipe, Spain, France, Macau and East Timor, which contributed in aggregate €55.7 million to the Group's net income in 2016.

The Issuer is a global bank with a clear focus on traditional commercial banking: over 90 per cent. of its domestic loans are to individuals and corporates and over 80 per cent. of its domestic loans are to individuals. It has a stable liquidity position, with a loan-to-deposit ratio of 90.6 per cent. and does not rely in any material respect on wholesale funding. After the additional provisions and impairments reflected in the 2016 accounts, the Issuer reduced its credit at risk to 10.5 per cent. of its credit portfolio with a coverage level of 79.0 per cent.

Once the 2017 Recapitalisation Plan has been completed, the Issuer will have robust capital ratios with CET1 at 12.0 per cent., Tier 1 at 13.0 per cent. and a total capital ratio at 14.1 per cent., all of these on a consolidated basis, and according to phase-in methodology (see - *Risks relating to State ownership and State Aid - Second Part of the 2017 Recapitalisation Plan*).

The Group's Geographic Markets

The Group operates in overseas markets such as Spain ("**Banco Caixa Geral**", with a total of 110 branches), France (French Branch with 48 branches), the United Kingdom, Switzerland, Luxembourg, Germany, India, China, Macao, Mozambique (BCI with 193 branches), Cape Verde (Banco Interatlântico and BCA with 43 branches in total), Angola (with 42 branches), South Africa, São Tomé e Príncipe, Venezuela, Mexico, the Cayman Islands, the United States, Brazil and East-Timor. The Group's international presence is focused on countries with cultural and economic ties to Portugal, mainly in Asia and Africa (Macao, Angola and Mozambique).

Summary of Audited Financial Information for the years 2014 and 2015

Set out below in summary form are the audited financial statements (balance sheet, income statement, comprehensive income, cash flow statement and statements of changes in shareholders equity), consolidated and non-consolidated of the Group and Caixa Geral de Depósitos, SA, for the years ended 31 December 2014 and 31 December 2015.

The consolidated financial information was prepared in accordance with International Accounting Standards/Internacional Financial Reporting Standards ("**IAS/IFRS**") as adopted by the European Union in accordance with Regulation (EC) 1606/2002 of 19 July of the European Parlament and Council, as amended and incorporated into Portuguese legislation through Bank of Portugal Notice (*Aviso*) 1/2005 of 21 February, as amended, still inforce for financial years of 2014 and 2015.

The non-consolidated financial information was prepared in accordance with the Adjusted Accounting Rules (*Normas de Contabilidade Ajustadas*) in accordance with Notice (*Aviso*) number 1/2005 of 21 February and Regulatory Instruments (*Instrucções*) numbers 23/2004 and 9/2005 both from Bank of Portugal.

The non-consolidated financial statements include the Issuer and its branches (including the activities of the France, London, Spain, Luxembourg, New York, Grand Cayman, Timor, Macau and Zhuhai branches).

Critical accounting estimates and other matters of judgment in the application of accounting policies

The accounting policies applied by the Issuer in the preparation of the financial statements requires the Issuer's executive committee and the Group companies to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience, the intentions of the Issuer and Group companies regarding the management and future holding of the assets and other factors that are considered to be relevant, including expectations of future events that are considered reasonable taking into account the circumstances and that are known when the financial statements are prepared. Primarily as a result of the uncertainty associated with any estimate, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The estimates with the greatest impact in the Issuer's and the Group's financial statements include the assessment of impairment losses on loans and other amounts receivable, valuation of foreclosed assets, measurement of financial instruments not traded in active markets, measurement of employee benefit liabilities, assessment of income tax and recoverability of deferred tax assets. If the actual results are materially different from the estimates and assumptions made in the preparation of the financial statements, these may have a material adverse impact on the activity, financial positions and results of the Issuer and the Group.

Consolidated Balance Sheet

(€ millions)

ASSETS	December 2014	December 2015
Cash and cash equivalents at central banks	2,118.0	2,879.6
Cash balances at other credit institutions	878.3	773.2
Loans and advances to credit institutions	2,133.7	4,011.5
	5,130.0	7,664.3
Financial assets at fair value through profit or loss	3,073.6	3,365.9
Available-for-sale financial assets	15,898.4	15,620.4
Financial assets with repurchase agreement	1,281.1	1,081.2
Hedging derivatives	78.0	46.5
	20,331.1	20,114.0
Loans and advances to customers	66,863.6	65,759.0
Non-current assets held for sale	804.4	830.4
Investment properties	1,189.2	1,125.0
Other tangible assets	666.3	619.4
Intangible assets	161.7	135.0
Investments in associates and jointly controlled entities	318.8	277.5
Current tax assets	54.9	37.1
Deferred tax assets	1,425.2	1,473.9
Other assets	3,206.7	2,865.8
Total Assets	100,152.0	100,901.5

Consolidated Balance Sheet

(€ millions)

LIABILITIES AND EQUITY	December 2014	December 2015
Resources of central banks and other credit institutions	6,001.7	5,433.1
Customer resources and other loans	71,134.2	73,426.3
Debt securities	7,174.5	6,700.1
	84,310.3	85,559.4
Financial liabilities at fair value through profit or loss	2,121.1	1,738.6
Hedging derivatives	20.0	10.8
Non-current liabilities held for sale	1.9	-
Provisions for employee benefits	572.4	643.0
Provisions for other risks	269.3	349.5
Current tax liabilities	38.5	15.9
Deferred tax liabilities	370.4	253.2
Other subordinated liabilities	2,427.9	2,428.9
Other liabilities	3,527.4	3,718.5
Total Liabilities	93,659.3	94,717.8
Share capital	5,900.0	5,900.0
Fair value reserves	411.8	258.8
Other reserves and retained earnings	(437.9)	(690.7)
Net income attributable to the shareholder of CGD	(348.0)	(171.5)
Equity attributable to the shareholder of CGD	5,525.8	5,296.7
Non-controlling interests	966.9	887.0
Total Equity	6,492.8	6,183.7
Total Liabilities and Equity	100,152.0	100,901.5

Consolidated Income Statement

(€ millions)

	December 2014	December 2015
Interest and similar income	3,339.2	2,958.1
Interest and similar expenses	(2,350.5)	(1,844.4)
Income from equity instruments	49.6	74.3
NET INTEREST INCOME	1,038.3	1,187.9
Income from services rendered and commissions	659.1	642.0
Cost of services and commissions	(144.0)	(130.5)
Results from financial operations	201.7	350.0
Other operating income	(16.5)	(7.4)
TOTAL OPERATING INCOME	1,738.4	2,042.0
Employee costs	(729.6)	(820.0)
Other administrative costs	(487.4)	(466.4)
Depreciation and amortisation	(110.7)	(105.9)
Provisions net of reversals	62.8	(37.2)
Loan impairment net of reversals and recoveries	(854.1)	(557.3)
Other assets impairment net of reversals and recoveries	(158.3)	(122.0)
Results of subsidiaries held for sale	285.9	(1.6)
Results of associates and jointly controlled entities	19.4	47.1
INCOME BEFORE TAX AND NON CONTROLLING INTERESTS	(233.5)	(21.3)
Income tax		
Current	(67.6)	(152.8)
Deferred	37.9	92.6
	(29.8)	(60.2)
CONSOLIDATED NET INCOME FOR THE YEAR, of which:	(263.3)	(81.5)
Non-controlling interests	(84.7)	(90.0)
NET INCOME ATTRIBUTABLE TO THE SHAREHOLDER OF CGD	(348.0)	(171.5)
Average number of ordinary shares outstanding	1,180,000,000	1,180,000,000
Earnings per share (in Euros)	(0.29)	(0.15)

Consolidated Statement of Comprehensive Income

(€ millions)	December 2014			December 2015
	Current activities	Non-current activities	Total	Current activities
Balances subject to reclassification to profit or loss				
Adjustments to fair value of available-for-sale financial assets				
Gains / (losses) arising during the year	730.8	122.6	853.5	(99.9)
Adjustments of fair value reserves reclassified to net income				
Impairment recognized in the year	60.2	-	60.2	65.3
Disposal of available-for-sale financial assets	(231.8)	(112.5)	(344.3)	(204.2)
Tax effect	(156.9)	0.6	(156.3)	60.0
Foreign exchange difference				
Gains / (losses) arising during the year	89.1	-	89.1	(162.9)
Adjustments of exchange reserves reclassification to results				
Impairment recognized for the year for available-for-sale financial assets				
- Investment units in foreign currency	-	-	-	4.8
Tax effect	(3.6)	-	(3.6)	(1.3)
Other	(1.7)	-	(1.7)	(16.8)
	486.1	10.7	496.8	(354.9)
Balances not subject to reclassification to profit or loss				
Employee benefits - actuarial gains and losses				
Gains / (losses) arising during the year	(390.4)	-	(390.4)	77.8
Tax effect	8.8	-	8.8	51.8
	(381.5)	-	(381.5)	129.7
Total comprehensive net income for the year recognised in reserves	104.6	10.7	115.3	(225.2)
Net income for the year	(549.2)	285.9	(263.3)	(81.5)
TOTAL COMPREHENSIVE NET INCOME FOR THE YEAR, of which:	(444.7)	296.6	(148.0)	(306.7)
Non-controlling interests	(95.4)	-	(95.4)	(4.0)
TOTAL COMPREHENSIVE NET INCOME ATTRIBUTABLE TO THE SHAREHOLDER OF CGD	(540.0)	296.6	(243.4)	(310.7)

Consolidated Cash Flow Statements

(€ millions)

OPERATING ACTIVITIES	December 2014	December 2015
Cash flows from operating activities before changes in assets and liabilities		
Interest, commissions and similar income received	3,972.8	3,631.7
Interest, commissions and similar expenses paid	(2,296.4)	(1,818.0)
Recovery of principal and interests	30.1	21.8
Payments to employees and suppliers	(1,152.4)	(1,126.6)
Payments and contributions to pension funds and other benefits	(379.5)	(105.8)
Other results	143.1	113.4
	317.7	716.5
(Increases) decreases in operating assets		
Loans and advances to credit institutions and customers	1,227.1	(1,113.1)
Assets held for trading and other assets at fair value through profit or loss	(14.1)	(601.7)
Other assets	(279.2)	592.8
	933.8	(1,122.0)
Increases (decreases) in operating liabilities		
Resources of central banks and other credit institutions	(3,667.5)	(560.4)
Customer resources	3,431.7	2,505.4
Other liabilities	(44.9)	327.8
	(280.6)	2,272.8
Net cash from operating activities before taxation	971.0	1,867.2
Income tax	(21.9)	(103.5)
Net cash from operating activities	949.1	1,763.7
INVESTING ACTIVITIES		
Dividends received from equity instruments	49.6	74.3
Acquisition of investments in subsidiary and associated companies, net of disposals	967.6	(226.8)
Acquisition of available-for-sale financial assets, net of disposals	657.4	154.2
Acquisition of tangible and intangible assets and investment property, net of disposals	(93.7)	(93.7)
Net cash from investing activities	1,580.9	(91.9)
FINANCING ACTIVITIES		
Interest on subordinated liabilities	(117.2)	(120.9)
Interest on debt securities	(347.4)	(227.7)
Issue of subordinated liabilities, net of repayments	(104.0)	-
Issue of debt securities, net of repayments	(1,615.1)	(453.1)
Net cash from financing activities	(2,183.8)	(801.7)
Increase (decrease) in cash and cash equivalents	346.2	870.1
Cash and cash equivalents at the beginning of the year	2,581.9	2,996.3
Foreign exchange differences in cash and cash equivalents	68.2	(213.7)
Net change of cash and cash equivalents	346.2	870.1
Cash and cash equivalents at the end of the year	2,996.3	3,652.8

Consolidated Statements of Changes in Shareholders´ Equity
(€ millions)

	Share capital	Fair value reserve	Other reserves and retained earnings: Other reserves	Other reserves and retained earnings: Retained earnings	Other reserves and retained earnings: Total	Net income for the year	Subtotal	Non-controlling interests	Total
Balances at 31 December 2013	5,900.0	63.9	1,491.7	(1,082.1)	409.6	(578.9)	5,794.7	880.9	6,675.6
Appropriation of net income for 2013:									
Transfer to reserves and retained earnings	-	-	511.6	(1,090.5)	(578.9)	578.9	-	-	-
Other entries directly recorded in equity:									
Gain/(losses) on available-for-sale financial assets	-	347.9	68.9	-	68.9	-	416.7	(3.7)	413.1
Employee benefits - actuarial gains and losses	-	-	(381.5)	-	(381.5)	-	(381.5)	-	(381.5)
Foreign currency differences in subsidiaries and branches	-	-	69.5	-	69.5	-	69.5	16.0	85.5
Other	-	-	(0.1)	-	(0.1)	-	(0.1)	(1.7)	(1.7)
Total gains and losses for the year recognised in equity	-	347.9	(243.2)	-	(243.2)	-	104.7	10.6	115.3
Changes in Group perimeter	-	-	-	-	-	-	-	8.8	8.8
Written-put over non-controlling interests - Partang	-	-	(25.5)	-	(25.5)	-	(25.5)	-	(25.5)
Dividends paid on preference shares and other dividends paid to non-controlling interests	-	-	-	-	-	-	-	(18.2)	(18.2)
Reclassifications between reserves and retained earnings	-	-	79.9	(79.9)	-	-	-	-	-
Net income for the year	-	-	-	-	-	(348.0)	(348.0)	84.7	(263.3)
Balances at 31 December 2014	5,900.0	411.8	1,814.6	(2,252.5)	(437.9)	(348.0)	5,525.8	966.9	6,492.8
Appropriation of net income for 2014:									
Transfer to reserves and retained earnings	-	-	791.3	(1,139.3)	(348.0)	348.0	-	-	-
Other entries directly recorded in equity:									
Gain/(losses) on available-for-sale financial assets	-	(153.0)	(21.6)	-	(21.6)	-	(174.6)	(4.1)	(178.7)
Employee benefits - actuarial gains and losses	-	-	129.7	-	129.7	-	129.7	-	129.7
Foreign currency differences in subsidiaries and branches	-	-	(77.0)	-	(77.0)	-	(77.0)	(82.4)	(159.4)
Other	-	-	(17.4)	-	(17.4)	-	(17.4)	0.6	(16.8)
Total gains and losses for the year recognised in equity	-	(153.0)	13.7	-	13.7	-	(139.3)	(85.9)	(225.2)
Written-put over non-controlling interests - Partang	-	-	81.6	-	81.6	-	81.6	(64.4)	17.1
Investments carried out by non-controlling interests	-	-	-	-	-	-	-	(0.6)	(0.6)
Dividends paid on preference shares and other dividends paid to non-controlling interests	-	-	-	-	-	-	-	(18.9)	(18.9)
Reclassifications between reserves and retained earnings	-	-	(0.5)	0.5	-	-	-	-	-
Net income for the year	-	-	-	-	-	(171.5)	(171.5)	90.0	(81.5)
Balances at 31 December 2015	5,900.0	258.8	2,700.6	(3,391.3)	(690.7)	(171.5)	5,296.7	887.0	6,183.7

The following table shows certain key ratios for the Group as at 31 December 2014 and 2015:

Profit and Efficiency Ratios

	As of 31 December	
	2014 (per cent.)	2015 (per cent.)
Gross Return on equity – ROE [1]	(3.2)	(0.3)
Net Return on equity - ROE [1]	(3.6)	(1.3)
Gross Return on assets - ROA [1]	(0.2)	0.0
Net Return on assets – ROA [1]	(0.3)	(0.1)
Cost-to-income [1]	75.5	66.6
Total operating income/average net assets [1]	1.7	2.1

[1] - Ratios defined by the Bank of Portugal

Asset Quality Ratios	As of 31 December	
	2014 (per cent.)	2015 (per cent.)
Structure Ratios		
Loans-to-deposit ratio	94.5	90.1
Capital Ratios – Solvency Ratios [2]		
Common equity Tier 1 (DTA phased-in)	11.1	10.9
Tier 1 (DTA phased-in)	11.1	10.9
Total (DTA phased-in)	12.9	12.3
Common equity Tier 1 (DTA fully implemented)	10.2	10.0
Leverage and liquidity Ratios (CRD IV/CRR)		
Leverage ratio (fully implemented)	6.1	5.7
Liquidity coverage ratio	103.6	146.4
Net stable funding ratio	126	135.9
Credit Quality and Cover Levels		
Overdue credit / total credit	7.7	7.6
Credit more than 90 days overdue /Total credit	7.1	7.2
Non-performing credit/Total credit [1]	8.9	9.3
Credit at risk /Total credit [1]	12.2	11.5
Restructured credit / Total credit [1]	10.6	10.0
Restructured credit not included in credit at risk / Total credit [1]	6.3	5.6
Credit more than 90 days overdue coverage	102.3	102.2
Credit Impairment (P&L)/Loans and Advances to Customers (average)	1.18	0.78

[1] - Ratios defined by the Bank of Portugal

[2] - Considering the Special Regime applicable to DTA - Diferred Tax Assets (according to IAS). December 2014 figures are proforma.

Non consolidated Financial Statements – Caixa Geral de Depósitos, SA

Balance Sheet (Non-Consolidated)

(€ millions)

ASSETS	December 2014	December 2015
Cash and cash equivalents at central banks	1,201.7	1,773.9
Cash balances at other credit institutions	420.0	449.4
Financial assets held for trading	2,225.8	2,578.2
Other financial assets at fair value through profit or loss	584.0	570.1
Available-for-sale financial assets	17,878.7	17,200.9
Financial assets with repurchase agreement	1,094.4	770.7
Loans and advances to credit institutions	3,645.6	4,952.0
Loans and advances to customers	55,200.6	53,179.3
Hedging derivatives	80.3	46.5
Non-current assets held for sale	377.7	386.8
Investment properties	3.0	3.0
Other tangible assets	378.3	347.9
Intangible assets	85.5	81.0
Investments in subsidiaries, associates and jointly controlled entities	3,321.2	3,765.1
Current tax assets	22.8	15.6
Deferred tax assets	1,603.4	1,656.8
Other assets	2,734.6	2,225.4
Total Assets	90,857.5	90,002.7
LIABILITIES AND EQUITY		
Resources of central banks	1,606.6	1,342.8
Financial liabilities held for trading	2,171.9	1,706.5
Resources of other credit institutions	4,413.3	4,364.1
Customer resources and other loans	61,761.7	61,950.1
Debt securities	7,120.4	6,686.1
Financial liabilities associated with transferred assets	4,567.4	4,347.8
Hedging derivatives	20.0	15.3
Provisions	962.4	1,095.1
Current tax liabilities	2.4	8.0
Deferred tax liabilities	155.5	118.9
Other subordinated liabilities	2,606.3	2,604.4
Other liabilities	1,692.3	1,957.1
Total Liabilities	87,080.1	86,196.1
Share capital	5,900.0	5,900.0
Revaluation reserves	473.9	368.0
Other reserves and retained earnings	(1,457.2)	(2,473.7)
Net income for the year	(1,139.3)	12.2
Total Equity	3,777.4	3,806.5
Total Liabilities and Equity	90,857.5	90,002.7

Income Statement (Non-Consolidated)

(€ millions)

	December 2014	December 2015
Interest and similar income	2,694.4	2,241.5
Interest and similar expenses	(2,135.9)	(1,617.3)
NET INTEREST INCOME	558.5	624.2
Income from equity instruments	116.8	438.6
Income from services and commissions	451.7	440.3
Cost of services and commissions	(97.7)	(92.8)
Results of assets and liabilities measured at fair value through profit or loss	(239.6)	88.8
Results on available-for-sale financial assets	317.5	210.9
Results from foreign exchange reavaluation	(6.5)	12.6
Results on the sale of other assets	(25.8)	134.4
Other operating income	46.2	34.6
TOTAL OPERATING INCOME	1,121.0	1,891.5
Employee costs	(514.2)	(590.8)
Other administrative costs	(359.5)	(345.4)
Depreciation and amortisation	(75.4)	(69.5)
Provisions net of reversals	26.3	(11.1)
Correction of the amount of loans and advances to customers and receivables from other debtors, net of reversals	(1,350.1)	(720.2)
Other financial assets impairment net of reversals and recoveries	(53.3)	(96.5)
Other assets impairment net of reversals and recoveries	(166.8)	(9.0)
INCOME BEFORE TAX	(1,371.9)	48.9
Income tax		
Current	(19.4)	(84.9)
Deferred	252.1	48.2
	232.6	(36.7)
NET INCOME FOR THE YEAR	(1,139.3)	12.2
Average number of ordinary shares outstanding	1,180,000,000	1,180,000,000
Earnings per share (in Euros)	(0.97)	0.01

STATEMENT OF COMPREHENSIVE INCOME (Non-Consolidated)

(€ millions)

	December 2014	December 2015
Balances subject to reclassification to profit or loss		
Adjustments to fair value of available-for-sale financial assets		
Gains / (losses) arising during the year	814.3	(48.2)
Adjustments of fair value reserves reclassified to net income		
Impairment recognized in the year	53.5	113.3
Disposal of available-for-sale financial assets	(317.5)	(210.9)
Tax effect	(151.3)	39.9
Currency changes in Branches	(6.7)	(6.8)
Other	0.1	-
Subtotal	392.4	(112.8)
Balances not subject to reclassification to profit or loss		
Employees benefits- amortisation of transition impact		
Gains / (losses) arising during the year	(22.5)	-
Tax effect	6.2	-
Employees benefitss - actuarial gains and losses		
Gains / (losses) arising during the year	(390.4)	77.8
Tax effect	8.8	51.8
Subtotal	(397.9)	129.7
Total comprehensive net income for the year recognised in reserves	(5.5)	16.9
Net income for the year	(1,139.3)	12.2
Total comprehensive net income for the year	(1,144.8)	29.1

CASH FLOW STATEMENTS (Non-Consolidated)

(€ millions)

OPERATING ACTIVITIES	December 2014	December 2015
Cash flows from operating activities before changes in assets and liabilities		
Interest, commissions and similar income received	3,144.5	2,723.8
Interest, commissions and similar costs paid	(2,032.0)	(1,577.1)
Recovery of principal and interests	24.4	13.8
Payments to employees and suppliers	(799.5)	(761.6)
Payments and contributions to pension funds and other benefits	(378.1)	(100.8)
Other results	19.9	29.9
	(20.7)	328.0
(Increases) decreases in operating assets		
Loans and advances to credit institutions and customers	2,481.1	206.5
Assets held for trading and other assets at fair value through profit or loss	(55.4)	(717.7)
Other assets	(330.4)	338.9
	2,095.4	(172.3)
Increases (decreases) in operating liabilities		
Resources of central banks and other credit institutions	(3,996.4)	(312.4)
Customer resources	3,758.4	423.1
Other liabilities	(266.1)	387.5
	(504.2)	498.3
Net cash from operating activities before taxation	1,570.5	653.9
Income tax	60.4	(22.3)
Net cash from operating activities	1,630.9	631.6
INVESTING ACTIVITIES		
Dividends received from subsidiary and associated companies	88.8	413.6
Dividends received from equity instruments classified as available-for-sale financial assets	28.6	30.6
Acquisition of investments in subsidiary and associated companies, net of disposals	(66.9)	(207.6)
Acquisition of available-for-sale financial assets, net of disposals	715.0	537.1
Acquisition of tangible and intangible assets and investment property, net of disposals	(39.1)	(36.6)
Net cash from investing activities	726.4	737.1
FINANCING ACTIVITIES		
Interest on subordinated liabilities	(116.1)	(120.5)
Interest on debt securities	(345.3)	(225.1)
Issue of debt securities, net of repayments	(1,500.4)	(424.2)
Net cash from financing activities	(1,961.8)	(769.8)
Increase (decrease) in cash and cash equivalents	395.5	599.0
Cash and cash equivalents at the beginning of the year	1,223.5	1,621.7
Foreign exchange differences in cash and cash equivalents	2.7	2.6
Net change of cash and cash equivalents	395.5	599.0
Cash and cash equivalents at the end of the year	1,621.7	2,223.3

Statements of change in Shareholders´Equity (Non-Consolidated)

(€ millions)

		Revaluation Reserves				Other reserves and retained earnings					
	Share Capital	Fair value reserves	Reserves for deferred tax	Fixed assets	Total	Legal Reserves	Other Reserves	Retained earnings	Total	Net income for the year	Total
Balances at 31 December 2013	5,900.0	(49.9)	14.5	110.4	75.0	862.9	230.9	(1,056.1)	37.7	(1,090.5)	4,922.2
Appropriation of net income for 2013:											
Transfer to reserves and retained earnings	-	-	-	-	-	-	-	(1,090.5)	(1,090.5)	1,090.5	-
Other entries directly recorded in equity:											
Gain/(losses) on available-for-sale financial assets	-	550.2	(151.3)	-	398.9	-	-	-	-	-	398.9
Employee benefits - Amortization of the impact of the transition to the NCA	-	-	-	-	-	-	-	(16.3)	(16.3)	-	(16.3)
Employee benefits - acturial gains and losses	-	-	-	-	-	-	(381.5)	-	(381.5)	-	(381.5)
Foreign currency differences in branches	-	-	-	-	-	-	(6.7)	-	(6.7)	-	(6.7)
Other	-	-	-	-	-	-	0.1	-	0.1	-	0.1
Total gains and losses for the year recognised in equity	-	550.2	(151.3)	-	398.9	-	(388.0)	(16.3)	(404.4)	-	(5.5)
Reclassifications between reserves and retained earnings	-	-	-	-	-	-	28.4	(28.4)	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	(1,139.3)	(1,139.3)
Balances at 31 December 2014	5,900.0	500.3	(136.8)	110.4	473.9	862.9	(128.7)	(2,191.4)	(1,457.2)	(1,139.3)	3,777.4
Appropriation of net income for 2014:											
Transfer to reserves and retained earnings	-	-	-	-	-	-	-	(1,139.3)	(1,139.3)	1,139.3	-
Other entries directly recorded in equity:											
Gain/ (losses) on avaiable -for-sale financial assets	-	(145.8)	39.9	-	(105.9)	-	-	-	-	-	(105.9)
Employee benefits - actuarial gains and losses	-	-	-	-	-	-	129.7	-	129.7	-	129.7
Foreign currency differences in branches	-	-	-	-	-	-	(6.8)	-	(6.8)	-	(6.8)
Other	-	-	-	-	-	-	-	-	-	-	-
Total gains and losses for the year recognised in equity	-	(145.8)	39.9	-	(105.9)	-	122.8	-	122.8	-	16.9
Reclassifications between reserves and retained earnings	-	-	-	-	-	-	(0.5)	0.5	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	12.2	12.2
Balances at 31 December 2015	5,900.0	354.6	(97.0)	110.4	368.0	862.9	(6.4)	(3,330.2)	(2,473.7)	12.2	3,807

Summary of unaudited financial information for the year ended 31 December 2016

Set out below in summary form are the unaudited financial statements (balance sheet, income statement and accounts), consolidated and non-consolidated of the Group and Caixa Geral de Depósitos, SA, for the years ended 31 December 2015 and 31 December 2016.

CAIXA GERAL DE DEPÓSITOS, S.A.

UNAUDITED ACCOUNTS CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016 AND 2015

(€ millions)

ASSETS	**December 2015**	**December 2016**
Cash and cash equivalents at central banks	2,879.6	1,840.6
Cash balances at other credit institutions	773.2	757.7
Loans and advances to credit institutions	4,011.5	3,217.8
	7,664.3	**5,816.1**
Financial assets at fair value through profit or loss	3,365.9	7,153.9
Available-for-sale financial assets	15,620.4	7,429.5
Financial assets with repurchase agreement	1,081.2	799.7
Hedging derivatives	46.5	9.5
Financial assets held to maturity	-	433.1
	20,114.0	**15,825.8**
Loans and advances to customers	65,759.0	62,866.8
Non-current assets held for sale	830.4	1,426.1
Investment properties	1,125.0	978.3
Other tangible assets	619.4	576.5
Intangible assets	135.0	116.2
Investments in associates and jointly controlled entities	277.5	312.3
Current tax assets	37.1	41.8
Deferred tax assets	1,473.9	2,545.8
Other assets	2,865.8	3,041.6
Total Assets	**100,901.5**	**93,547.3**
LIABILITIES AND EQUITY		
Resources of central banks and other credit institutions	5,433.1	5,799.7
Customer resources and other loans	73,426.3	69,680.1
Debt securities	6,700.1	4,183.7
	85,559.4	**79,663.6**
Financial liabilities at fair value through profit or loss	1,738.6	1,695.5
Hedging derivatives	10.8	2.2
Non-current liabilities held for sale	-	693.4
Provisions for employee benefits	643.0	613.1
Provisions for other risks	349.5	514.2
Current tax liabilities	15.9	50.8
Deferred tax liabilities	253.2	191.0
Other subordinated liabilities	2,428.9	2,424.1
Other liabilities	3,718.5	3,816.6
Total Liabilities	**94,717.8**	**89,664.5**
Share capital	5,900.0	5,900.0
Fair value reserves	258.8	(38.3)
Other reserves and retained earnings	(690.7)	(983.7)
Net income attributable to the shareholder of CGD	(171.5)	(1,859.5)
Equity attributable to the shareholder of CGD	5,296.7	3,018.4
Non-controlling interests	887.0	864.4
Total Equity	**6,183.7**	**3,882.8**
Total Liabilities and Equity	**100,901.5**	**93,547.3**

CAIXA GERAL DE DEPÓSITOS, S.A.
UNAUDITED ACCOUNTS CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(€ millions)

	December 2015 (*)	December 2016
Interest and similar income	2,904.6	2,628.0
Interest and similar expenses	(1,819.9)	(1,483.2)
Income from equity instruments	74.3	52.4
NET INTEREST INCOME	1,159.0	1,197.3
Income from services rendered and commissions	621.6	584.1
Cost of services and commissions	(123.4)	(120.5)
Results from financial operations	345.9	79.5
Other operating income	(4.2)	(193.1)
TOTAL OPERATING INCOME	1,998.8	1,547.2
Employee costs	(803.9)	(705.9)
Other administrative costs	(458.3)	(439.6)
Depreciation and amortisation	(102.4)	(94.9)
Provisions net of reversals	(37.2)	(232.8)
Loan impairment net of reversals and recoveries	(556.2)	(2,396.4)
Other assets impairment net of reversals and recoveries	(122.0)	(387.7)
Results of subsidiaries held for sale	8.7	10.8
Results of associates and jointly controlled entities	47.1	47.5
INCOME BEFORE TAX AND NON CONTROLLING INTERESTS	(25.5)	(2,651.8)
Income tax		
Current	(147.7)	247.0
Deferred	91.6	579.6
	(56.1)	826.7
CONSOLIDATED NET INCOME FOR THE YEAR, of which:	(81.5)	(1,825.2)
Non-controlling interests	(89.9)	(34.4)
NET INCOME ATTRIBUTABLE TO THE SHAREHOLDER OF CGD	(171.5)	(1,859.5)
Average number of ordinary shares outstanding	1,180,000,000	1,180,000,000
Earnings per share (in Euros)	(0.15)	(1.58)

(*) The December 2015 values have been restated, considering Mercantile Bank Holdings, Ltd. as a non-current asset held for sale.

UNAUDITED ACCOUNTS CONSOLIDATED BALANCE SHEET AND P&L INDICATORS	December 2015 (**)	December 2016		Change
Net assets	100,901	93,547		-7.3%
Loans and advances to customers (net)	65,759	62,867		-4.4%
Customer resources	73,426	69,680		-5.1%
Total equity	6,184	3,883		-37.2%
Total Operating Income	1,999	1,547		-22.6%
Core Net Operating Income before Impairments	218	368		68.7%
Net income	-171	-1,860		-
PROFIT AND EFFICIENCY RATIOS				
Gross return on equity - ROE (1) (2)	-0.4%	-46.5%		-46.1 p.p.
Net return on equity - ROE (2)	-1.3%	-32.0%		-30.7 p.p.
Gross return on assets - ROA (1) (2)	0.0%	-2.6%		-2.6 p.p.
Net return on assets - ROA (2)	-0.1%	-1.8%		-1.8 p.p.
Total Operating Income / Average net assets (1)	2.0%	1.6%		-0.4 p.p.
Employee costs / Total Operating Income (1)	39.3%	44.3%		5.0 p.p.
Cost-to-income (1)	66.6%	77.8%		11.1 p.p.
CREDIT QUALITY AND COVER LEVELS				
Overdue credit ratio	7.6%	7.2%		-0.4 p.p.
Credit more than 90 days overdue ratio	7.2%	6.6%		-0.5 p.p.
Non-performing credit ratio (1)	9.3%	8.4%		-0.9 p.p.
Non-performing credit (net) ratio (1)	2.2%	0.2%		-2.0 p.p.
Credit at risk ratio (1)	11.5%	10.5%		-1.0 p.p.
Credit at risk (net) ratio (1)	4.5%	2.4%		-2.1 p.p.
Restructured credit ratio (3)	10.0%	9.0%		-0.9 p.p.
Restructured credit not including in credit at risk ratio (3)	5.6%	4.2%		-1.4 p.p.
Overdue credit coverage	96.3%	113.8%		17.5 p.p.
Credit more than 90 days overdue coverage	102.2%	123.9%		21.7 p.p.
Credit impairment (P&L) / Loans & advances to customers (average)	0.78%	3.42%		2.6 p.p.
STRUCTURE RATIOS				
Loans & advances customers (net) / Net assets	65.2%	67.2%		2.0 p.p.
Loans & advances customers (net) / Customers deposits (1)	90.1%	90.6%		0.6 p.p.
SOLVENCY AND LIQUIDITY RATIOS (CRD IV/CRR) (4)			**Proforma (*)**	
CET 1 (phased-in)	10.9%	7.0%	12.0%	1.1 p.p.
Tier 1 (phased-in)	10.9%	7.0%	13.0%	2.1 p.p.
Total (phased-in)	12.3%	8.1%	14.1%	1.8 p.p.
CET 1 (fully implemented)	10.0%	5.5%	11.8%	1.8 p.p.
Liquidity coverage ratio	146.4%	181.1%		
Net stable funding ratio	135.9%	134.6%		
OTHER INDICATORS				
Number of branches - CGD Group	1,253	1,211		-42
Number of branches - CGD Portugal	764	717		-47
Number of employees - CGD Group	16,058	15,452		-606
Number of employees - CGD Portugal	8,410	8,113		-297

Note: Indicators calculations according to glossary at: http://www.cgd.pt/English/Investor-Relations/Investor-Information/Documents/Glossary.pdf

(1) Ratios defined by the Bank of Portugal (instruction 23/2012)
(2) Considering average shareholders' equity and net asset values (13 observations)
(3) Ratios defined by the Bank of Portugal (instruction 32/2013)
(4) Estimated end-December 2016 Solvency Ratios
(*) Proforma including the two stages of the ongoing recapitalization process
(**) The December 2015 values have been restated, considering Mercantile Bank Holdings, Ltd. as a non-current asset held for sale.

Consolidated unaudited results for the financial year ending 31 December 2016

As at 31 December 2016, net interest income, excluding income from equity instruments, was up 5.5 per cent. by €60.2, in comparison to the previous year, and totalled €1,144.9 million. This growth resulted from the 18.5 per cent. reduction of €336.7 million in funding costs, higher than the 9.5 per cent. decrease of €276.5 million in interest on lending operations.

The production of new domestic time deposits in 2016 had a cost of 0.20 per cent., in comparison to the average cost of 1.13 per cent. of the domestic time deposit portfolio.

The costs associated with the contingent convertible securities for 2016 was €81.2 million, which represented approximately 7 per cent. of the net interest income.

Domestic credit spread has remained broadly stable, decreasing 0.17 per cent. over the last 3 years. Approximately 75 per cent. of the loans provided are linked to EURIBOR. Therefore, an increase of one per cent. in the interest rate curve would increase net interest income by €159 million.

(€ millions)

RESULTS			***Change***
	December 2015	**December 2016**	**(%)**
Net interest income excluding income from equity instruments	1,084.7	1,144.9	5.5%
Net interest income	1,159.0	1,197.3	3.3%
Commissions (net)	498.2	463.6	-6.9%
Total Operating Income	1,998.8	1,547.2	-22.6%
Operating costs	1,364.7	1,240.3	-9.1%
Net Operating Income before Impairments	634.1	306.8	-51.6%
Core Net Operating Income before Impairments	218.2	368.1	68.7%
Provisions and Impairments	715.4	3,016.9	321.7%
Net income	-171.5	-1,859.5	-

Net commissions were down by an annual 6.9 per cent. to €463.6 million with income of €79.5 million from financial operations.

Total operating income was down from €451.7 million to €1,547.2 million, in 2016, in comparison to the preceding year, having essentially been penalised by the €266.4 million reduction in income from financial operations and the evolution of other operating losses (€-189.0 million when compared to 2015).

Operating costs, in 2016, were down 9.1 per cent. over the preceding year, having benefited from containment across all of its component parts. Excluding the recognition of the non-recurring cost of the pre or early retirement programme in progress (Horizonte plan) in 2015 and in 2016, the reduction would have been 5.7 per cent. Notwithstanding the reduction of operating costs, the above referred to decrease of total operating income led to a cost-to-income indicator of 77.8 per cent.

Between 2012 and 2015, the Group's consolidated operating expenses decreased by 19 per cent., this performance was in line with the Portuguese banking system for this period.

Net operating income before impairment, in 2016, was €306.8 million, down 51.6 per cent. by €327.3 million over 2015.

Core operating income in 2016, comprising the sum of net interest income and commissions, net of operating costs, was up 68.7 per cent. over the preceding year to €368.1 million, having benefited from the performance of net interest income and operating costs.

Approximately €186 million or 15 per cent. of the Group's cost base for 2016 was related to non-core international activities.

While advancing in its 2017 Recapitalisation Plan, the Issuer has completed a management assessment of its assets and potential contingencies, resulting in €3,016.9 million of new impairment and provisions for 2016. Credit impairment for the year amounted to €2,396.4 million, with a cost of credit risk of 3.42 per cent.

The referred amount of impairment and provisions was decisive for net income of €-1,859.5 million achieved in 2016.

Balance Sheet

As at 31 December 2016, the Group's consolidated net assets were down 7.3 per cent. to €93,547 million compared to the previous year.

The decline derived from lower claims at central banks and investments in credit institutions (down 24.1 per cent. by €1,848 million), securities investments (down 20.7 per cent. by €4,067 million) and loans and advances to customers (down 4.6 per cent. by €3,076 million).

BALANCE SHEET - Main headings			*(€ millions)* *Change*
	December 2015	**December 2016**	**(%)**
Net assets	100,901	93,547	-7.3%
Cash and loans and advances to credit instit.	7,664	5,816	-24.1%
Securities investments (1)	19,649	15,581	-20.7%
Loans and advances to customers (net) (2)	66,178	63,102	-4.6%
Loans and advances to customers (gross) (2)	71,376	68,735	-3.7%
Central banks' and credit institutions' resources	5,433	5,800	6.7%
Customer resources	73,426	69,680	-5.1%
Debt securities	6,700	4,184	-37.6%
Total equity	6,184	3,883	-37.2%

(1) Includes assets with repo agreements and trading derivatives

(2) Includes assets with repo agreements

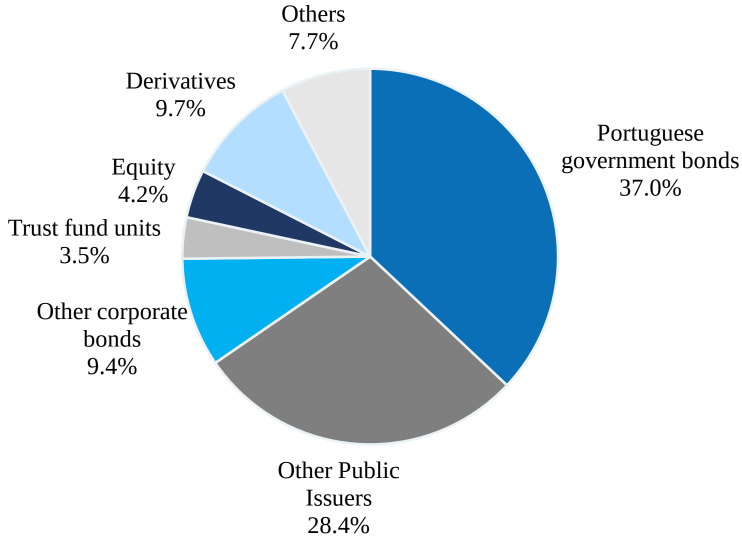
As at 31 December 2016, the securities investment portfolio, including assets with repurchase agreements and trading derivatives decreased by 20.7 per cent., by €4,067 million to €15,495 million, in comparison to as at 31 December 2015. The securities investment portfolio comprises of approximately 75 per cent. fixed income securities, of which 45 per cent. are treasury bills.

The investment portfolio breakdown as at 31 December 2016 was the following:

- Financial assets at fair value through profit and loss: 47.6 per cent.
- Available-for-sale financial assets: 49.5 per cent.
- Investments held to maturity: 2.9 per cent.

The unrealised capital losses totalled €38 million. The average duration of the portfolio was about 4 years.

The breakdown of the investment portfolio by type of securities was the following:



The liabilities side witnessed reductions of customer resources (down 5.1 per cent. by €3,746 million) and debt securities (down 37.6 per cent. by €2,516 million).

CGD Portugal's customer resources as at 31 December 2016, in particular reflecting the reduction of the deposit balances of diverse institutional customers, were down 3.4 per cent. by €2,458 million over the preceding year to €70,260 million. The total resources of CGD Portugal's individual customers segment amounted to €58,061 million, a 0.6 per cent. annual change of €334 million. Individual deposits represented 81 per cent. of the total portfolio of customer deposits in Portugal, corporates 11 per cent. and institutions 8 per cent.

The breakdown of the consolidated deposits portfolio was as follows:

- Sight deposits: 36.3 per cent.;
- Term and saving deposits: 63.3 per cent.; and
- Mandatory deposits: 0.4 per cent.

(€ millions)

TOTAL CUSTOMER RESOURCES CGD PORTUGAL	**December 2015**	**December 2016**	***Change***
			(%)
Total deposits	**59,270**	**56,165**	**-5.2%**
Individuals	46,323	45,486	-1.8%
Corporate	5,873	6,144	4.6%
Institutionals	7,074	4,535	-35.9%
Other resources (*)	**13,447**	**14,094**	**4.8%**
Individuals	11,404	12,575	10.3%
Corporate	716	606	-15.4%
Institutionals	1,326	913	-31.2%
Total	**72,717**	**70,260**	**-3.4%**
Individuals	57,727	58,061	0.6%
Corporate	6,590	6,751	2.4%
Institutionals	8,401	5,448	-35.1%

(*) *Includes mutual funds, insurance products, OTRV and other bonds*

Loans and advances to customers (gross) – including loans with repurchase agreements – were down 3.7 per cent. over the preceding year to €68,735 million, strongly influenced by write-offs of €1,933 million accounted for in 2016.

In this environment, loans and advances to individual customers were down 5.1 per cent. in comparison to that at 31 December 2015, as opposed to corporate loans which were down 10.8 per cent. The Issuer's market share of corporate loans, in November 2016, was 20.7 per cent. The production of new mortgage loans has doubled in the last two years.

Translating the reduction in the size of its loans and advances to customers portfolio, the loans-to-deposits ratio was 90.6 per cent. in comparison to that at 31 December 2015 ratio of 90.1 per cent.

LOANS AND ADVANCES TO CUSTOMERS			*(€ millions)* *Change*
	December 2015	**December 2016**	**(%)**
CGD Portugal	**53,345**	**51,453**	**-3.5%**
Corporate	19,855	17,710	-10.8%
General government	3,111	3,071	-1.3%
Institutionals and other	883	2,666	201.8%
Individual customers	29,496	28,006	-5.1%
Mortgage loans	28,487	27,068	-5.0%
Other	1,008	938	-7.0%
Other CGD Group companies	**18,030**	**17,282**	**-4.1%**
Total	**71,376**	**68,735**	**-3.7%**

Note: Gross loans and advances to customers, including repurchase agreements

Credit in CGD Portugal amounted to €51,453 million and represented around 75 per cent. of the Group's total loans and advances to customers. In terms of breakdown, loans to corporates represented 34 per cent., general government loans 6 per cent., mortgage loans 53 per cent., other purpose individual loans represented 2 per cent. and other loans represented 5 per cent.

In terms of loan to value of the mortgage portfolio in Portugal, the distribution was as follows:

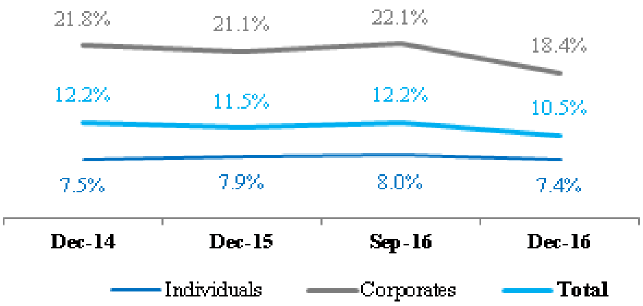
- 0 per cent.: 2.6 per cent.
- 0-60 per cent.: 41.8 per cent.
- 60-80 per cent.: 31.1 per cent.
- 80 – 100 per cent.: 19.7 per cent.
- >100 per cent.: 4.9 per cent.

Following the significant increase of impairment and provisions, the Issuer reduced its credit at risk to 10.5 per cent. of its credit portfolio, while, at the same time achieving impairment cover of 79.0 per cent. This is amongst the highest credit at risk coverage ratio of the top five Portuguese banks as at 31 December 2016. The average for Portuguese banks is a ratio of 72 per cent. This included the 99.9 per cent. cover achieved in the corporate loans segment, while cover to loans and advances to individual customers was 48.0 per cent. The foreclosed assets coverage ratio was 45.3 per cent., compared to the average for Portuguese banks which was 28 per cent.

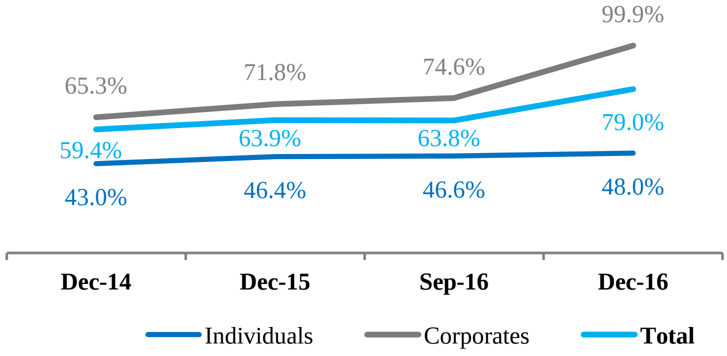
As of 31 December 2016, the cost of risk was 3.42 per cent. compared to 0.78 per cent. as at 31 December 2015, 1.18 per cent. as at 31 December 2014 and 1.06 per cent as at 31 December 2013, reflecting the significant provisioning effort.

The increase in provisions and impairments during 2016 resulted in the Issuer's cost of risk rising to 3.42 per cent., which compares to an average of 0.80 per cent. in respect of its Iberian peers.

Credit at risk ratio evolution



Credit at risk coverage ratio

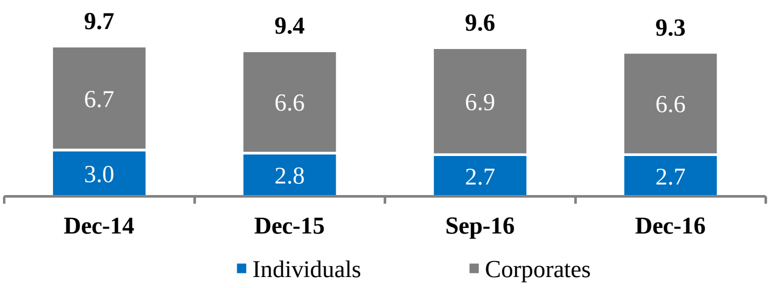


The current credit at risk ratio not covered by impairment is now 2.2 per cent. of total credit and evidences the increase of the financial strength of the Issuer's credit portfolio.

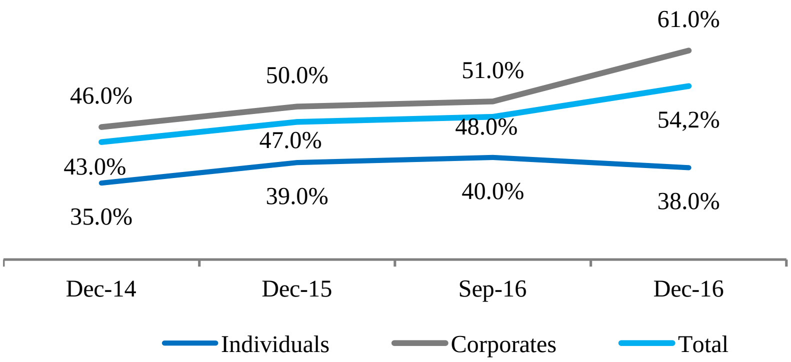
The credit overdue more than 90 days ratio totalled 6.6 per cent. as at 31 December 2016 (7.2 per cent. as at 31 December 2015), with a respective impairment cover of 123.9 per cent., in comparison to 102.2 per cent. as at 31 December 2015.

The Non-Performing Exposures ("**NPE**") Evolution

(€ Billion)



NPE coverage ratio



The indicated values for NPE, as of 31 December 2016, contain the credit overdue and the exposures with provisions arising from the individual analysis according to "EBA ITS On Supervisory reporting on forbearance and non-performing exposures".

The Group has a NPE coverage ratio of 54.2 per cent., in comparison the average NPE coverage ratio for Spanish banks is 48.6 per cent. and the average NPE coverage ratio for Italian banks is 46.0 per cent.

As of 31 December 2016, 38 per cent. of the NPE were not NPE with a duration of more than 90 days, 71 per cent. of NPE were from corporate loans and 17 per cent. of NPE had a coverage ratio of above 90 per cent.

The Texas ratio is determined by calculating the non-performing exposures as a proportion of the aggregate of Tangible Equity and Impairments in the balance sheet, which ratio was 88 per cent. as at 31 December 2016. In comparison, the average Texas ratio for Spanish banks was 80 per cent. and the average for Italian banks was 104 per cent.

Liquidity

Keeping pace with the ECB's measures designed to boost the credit market at the start of the year, CGD Portugal, in order to optimise its liquidity management and reduce its lending costs, opted to exchange the full amount of its Targeted Longer Term Refinancing Operations ("**TLTRO**") financing for the new 4 year TLTRO II operations and to increase its level of financing from the ECB, to boost its capacity to back the economy and domestic companies.

This resulted, for CGD Portugal, in an amount of €2 billion in financing from the ECB in June 2016, which remained unchanged up to the end of 2016. The Issuer's collection of eligible assets included in the collateral pool for ECB financing was also up by a similar amount from €9,876 million as at 31 December 2015 to €10,676 million as at 31 December 2016.

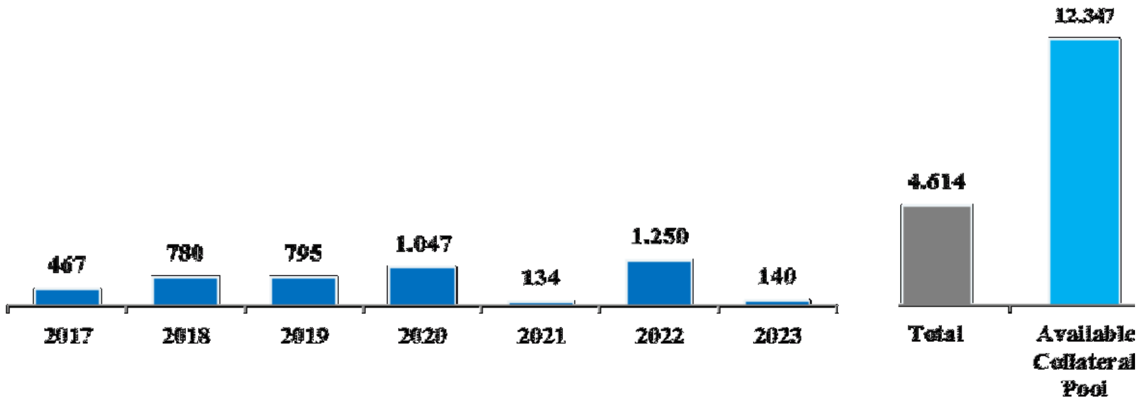
The Group's financing from the ECB increased by €761 million to €3,527 million (4 per cent. of the Group's total funding) at the end of the year. The ECB funding in 2012 totalled €12.3 billion. This increase was accompanied by a parallel increase in the eligible assets portfolio included in the Eurosystem pool, which went from €11,604 million as at 31 December 2015 to €12,347 million as at 31 December 2016.

The balance of medium and long term financing issued under both the EMTN and covered bonds programmes, continued its downwards trend of past years, in 2016. The maturity of several high volume issuances, including the inaugural issuance for the covered bonds market in Portugal, in 2006, translated into repayments of €2,365 million across the year. This amount was, however, easily accommodated, with internal liquidity management as its sole counterpart, without the need to raise funds from the market.

As at 31 December 2016, customer resources totalled €69.7 billion and represented 78 per cent. of the Group's funding structure, of which €69.4 billion are deposits, debt and subordinated debt securities constitute 7 per cent., central banks and credit institutions funding constitute 7 per cent. and other funding sources constitute 8 per cent., respectively.

The maturity profile of the Group's wholesale debt securities is as follows:

(€ Million)



The LCR (liquidity coverage ratio) indicator as at 31 December 2016 was higher than the regulatory requirements at 181.1 per cent. in comparison to 143.1 per cent. as at 31 December 2015. The NSFR (net stable funding ratio), was, in turn, 134.6 per cent. at the same date in comparison to 135.9 per cent. as at 31 December 2015.

Solvency

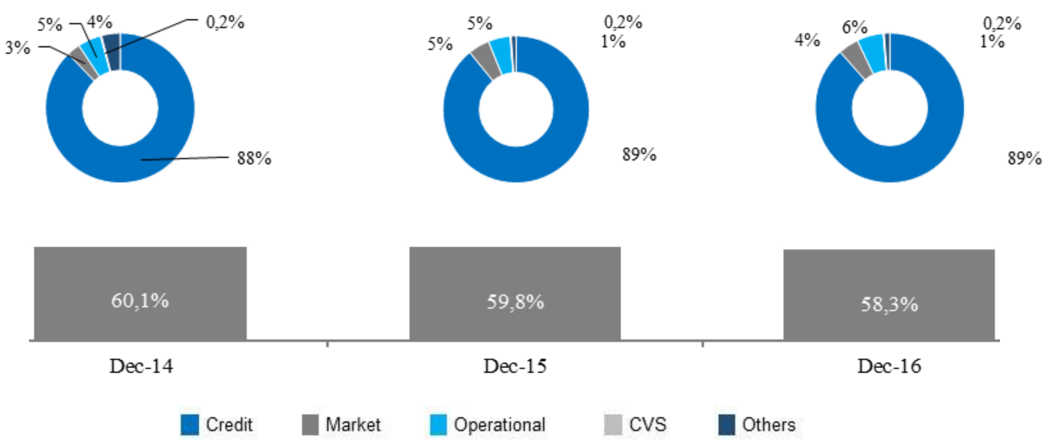
The phased-in CET1 and total capital ratios calculated on a consolidated basis under CRD IV/CRR rules were 7.0 per cent. and 8.1 per cent., respectively, as at 31 December 2016. The phased-in CET1 and total capital ratios calculated on an individual basis under CRD IV/CRR rules were 6.8 per cent. and 8.3 per cent., respectively, as at 31 December 2016.

As the largest institution in the Group, the Issuer is also the largest contributor to the Group's consolidated accounts and ratios. The main differences between the individual and the consolidated perimeters are the contributions of other entities of the Group to the consolidated position, in what concerns both own funds components (such as retained earnings, reserves and minority interests) and RWA components (credit risk, market risk and operational risk). The following table sets out the differences between the Issuer's and the Group's capital ratios

(€ millions)

31.12.2016	Transitional		
	Non-Consolidated	Consolidated	Diference
Common Equity Tier 1 (CET 1), of which:	**2.966,99**	**3.849,24**	**882,25**
Other Reserves and Retained Earnings + Revaluation Reserves + Net Income	-3.454,55	-2.914,16	540,39
Total Minority Interests included in CET1 own funds	-	411,60	411,60
Additional Tier 1	-	**0,58**	**0,58**
Tier 1	**2.966,99**	**3.849,82**	**882,83**
Tier 2	**665,37**	**578,69**	**-86,68**
Total Own Funds	**3.632,37**	**4.428,51**	**796,15**
RWA total	**43.646,63**	**55.000,06**	**11.353,43**
CET1 ratio	**6,80%**	**7,00%**	**0,20%**
Tier 1 ratio	**6,80%**	**7,00%**	**0,20%**
Total ratio	**8,32%**	**8,05%**	**-0,27%**

RWA Development



The RWA have developed consistently. As at 31 December 2016, RWA density was 58.3 per cent. in comparison with 59.8 per cent. as at 31 December 2015 and 60.1 per cent. as at December 2014. The breakdown by type of risk was as follows: 89 per cent. was related to credit risk, 4 per cent. was related to market risk, 6 per cent. was related to operational risk, 0.2 per cent. was related to credit valuation adjustment risk and 1 per cent. was related to other risks.

As at 31 December 2016, the Issuer's RWA density on a consolidated basis was 58.3 per cent. The range of RWA density reported by a group of its Iberian peers that have disclosed such information varies between 38.8 per cent. and 63.1 per cent. In the context of this range, the Issuer has the second largest RWA density.

Taking into account the Portuguese State's proposed €2,500 million cash injection, in addition to the proposed issuance of the Notes which are the subject of this Offering Circular, along with the first phase of the 2017 Recapitalisation Plan of which was implemented in early January 2017, the phased-in and fully implemented consolidated CET1 ratios would be 12.0 per cent. and 11.8 per cent., respectively. The Issuer's consolidated tier 1 and total phased-in ratios would be 13.0 per cent. and 14.1 per cent., respectively. As for the individual capital ratios, taking into account the same effects, the phased-in and fully implemented individual CET1 ratios would be 13.8 per cent. and 13.4 per cent., respectively. The Issuer's individual tier 1 and total phased-in ratios would be 14.8 per cent. and 16.3 per cent., respectively.

These ratios are well above the applicable minimum SREP requirements, described as follows, and decisively increase the Issuer's financial strength.

The Issuer's consolidated own funds taking into account the phasing-in methodology and all components of the recapitalisation, will rise to €6,997 million. If to this number (a) minority interests of €189 million are added and (b.i) €13 million of goodwill, (b.ii) €90 million of other intangible assets and (b.iii) €354 million of DTAs are deducted, the result is €6,729 million which corresponds to the Issuer's consolidated CET1 in phasing-in methodology and taking into account all components of the recapitalisation.

As at 31 December 2016, the Issuer's leverage ratio on a consolidated basis was 4.21 per cent. using phased-in methodology and 3.28 per cent. using fully implemented methodology. Taking into account the impact of the 2017 Recapitalisation Plan, those ratios would be 7.95 per cent. and 7.81 per cent., using phased-in and fully implemented methodology respectively.

ECB's Capital Requirements for 2017

Based on SREP 2016 results, the Issuer was notified by the ECB of the minimum capital requirements applicable to it starting on 1 January 2017.

On a consolidated basis activity, the phased-in CET1 capital requirement of 8.25 per cent. to be complied with includes: i) the minimum CET1 capital ratio of 4.5 per cent. required by Pillar 1; ii) the minimum CET1 capital ratio of 2.5 per cent. required by Pillar 2 and iii) the CCB (capital conservation buffer) of 1.25 per cent.

The Issuer's 2.5 per cent. Pillar 2 requirement is at the upper range in comparison with a group of 16 of its Iberian peers who have disclosed their respective Pillar 2 requirements. The range referred to varies between 0.75 per cent. and 2.50 per cent.

Pursuant to the Bank of Portugal's resolution of 29 July 2016, the O-SII (Other Systemically Important Institutions) buffer for the Issuer was set at 0.5 per cent. for 2018 and 1.0 per cent. for 2019. The CCB will increase to 2.5 per cent. in 2019.

In addition to the above mentioned CET1 capital requirement, the Issuer must achieve a minimum consolidated tier 1 ratio of 9.75 per cent. and a total capital ratio of 11.75 per cent. in 2017 on a consolidated basis.

On a non-consolidated basis, the phased-in CET1 capital requirement of 7.0 per cent. to be complied with includes: i) the minimum CET1 capital ratio of 4.5 per cent. required by Pillar 1; ii) the minimum CET1 capital ratio of 1.25 per cent. required by Pillar 2 and iii) the CCB (capital conservation buffer) of 1.25 per cent.

In addition to the above mentioned CET1 capital requirement, the Issuer must achieve a minimum individual tier 1 ratio of 8.5 per cent. and a total capital ratio of 10.5 per cent. in 2017.

The following table summarises the Issuer's and the Group's capital requirements on an individual and consolidated basis, respectively, for the period 2017 to 2019. Investors should note this is the Issuer's own interpretation of the evolution of capital requirements based on current and known information. It is possible that these requirements may change due to such factors including, but not limited to:

- the ECB and the Bank of Portugal changing the Issuer's or the Group's SREP capital requirements;

- the ECB and the Bank of Portugal changing the Issuer's or the Group's Combined Buffer Requirements; or
- new legislation, such as that proposed by the European Commission in November 2016, changing the way capital requirements are to be met by financial institutions in the Banking Union, for example the type of instruments (CET1 vs AT1 or T2) that may count towards the fulfilment of Pillar 2 Requirements.

Therefore, there are no assurances that these requirements will remain constant for the 2017-2019 period shown in the table below.

SREP - CAPITAL REQUIREMENTS	(%) **2017**	(%) **2018**	(%) **2019**
Consolidated			
Common Equity Tier 1 (CET1)	**8.25%**	**9.375%**	**10.5%**
Pillar 1	4.5%	4.5%	4.5%
Pillar 2 Requirement	2.5%	2.5%	2.5%
Capital Conservation Buffer (CCB)	1.25%	1.875%	2.5%
Other Systemically Important Institutions (OSII)	0.0%	0.5%	1.0%
Tier 1	**9.75%**	**10.875%**	**12.0%**
Total	**11.75%**	**12.875%**	**14.0%**
Individual			
Common Equity Tier 1 (CET1)	**7.0%**	**8.125%**	**9.25%**
Pillar 1	4.5%	4.5%	4.5%
Pillar 2 Requirement	1.25%	1.25%	1.25%
Capital Conservation Buffer (CCB)	1.25%	1.875%	2.5%
Other Systemically Important Institutions (OSII)	0.0%	0.5%	1.0%
Tier 1	**8.5%**	**9.625%**	**10.75%**
Total	**10.5%**	**11.625%**	**12.75%**

Domestic and International Activity

The domestic activity of the Group includes the Issuer's operations in Portugal and the activity of other entities of the Group, such as Caixa - Banco de Investimento, Caixa Gestão de Activos and Caixa Leasing and Factoring. The total assets for domestic operations was €70.6 billion, as of December 2016. The number of full time employees, as of December 2016 was 8,868 and the number of physical branches was 651.

International activity includes all activities carried out by the Issuer and other entities of the Group outside of Portugal.

Net losses, in 2016, from the Group's domestic activity totalled €1,915.2 million, against the preceding year's losses of €310.8 million, essentially translating provisions and impairment increases of €2,722.3 million, calculated as part of the previously referred to recalculation of the value of assets. Income from financial operations and other operating income were also down by €254.7 million and €206.4 million, respectively. This was offset by the favourable evolution of operating costs with a negative €124.7 million (-12.0 per cent.) and tax headings, with a negative €849.0 million.

DOMESTIC ACTIVITY CONTRIBUTION TO CONSOLIDATED P&L (*)	December 2015	December 2016	Change
			(%)
Net interest income including income from equity	636.0	658.5	3.5%
Commissions (net)	366.9	349.9	-4.6%
Income from financial operations	229.1	-25.5	-
Other operating income	70.6	-135.8	-
Total operating income	**1,302.7**	**847.0**	**-35.0%**
Employee costs	585.7	497.4	-15.1%
Other administrative expenses	388.3	355.4	-8.5%
Depreciation and amortisation	69.4	65.8	-5.2%
Operating costs	**1,043.4**	**918.6**	**-12.0%**
Net operating income before impairments	259.3	-71.6	-
Provisions and impairments	579.3	2,722.3	369.9%
Income from associated companies	46.7	46.7	0.1%
Income from subsidiaries held for sale	-1.6	0.0	-
Net Income before tax and non-controlling interest	-275.0	-2,747.2	-
Tax	18.7	-830.3	-
Non-controlling interest	17.2	-1.7	-
Net income	**-310.8**	**-1,915.2**	**-**

(€ millions)

(*) Pure intragroup transactions with no impact on consolidated net income are not eliminated

The international businesses' contribution to the Group's consolidated net income, in 2016, also affected by impairment and provisions increases of €294.6 million, totalled €55.7 million (down 60.1 per cent. over the preceding year). Total operating income was down 2.9 per cent. by €23.0 million, having affected by the 13.8 per cent. decrease of €15.2 million in income from financial operations. Operating costs were down 6.6 per cent. by €26.6 million.

INTERNATIONAL ACTIVITY CONTRIBUTION TO CONSOLIDATED P&L (*)	December 2015	December 2016	Change
			(%)
Net interest income incluing income from equity	526.4	548.4	4.2%
Commissions (net)	130.4	113.0	-13.3%
Income from financial operations	110.1	94.9	-13.8%
Other operating income	13.5	1.1	-91.9%
Total operating income	**780.4**	**757.4**	**-2.9%**
Employee costs	218.2	208.4	-4.5%
Other administrative expenses	154.3	141.5	-8.3%
Depreciation and amortisation	33.0	29.1	-11.9%
Operating costs	**405.6**	**379.0**	**-6.6%**
Net operating income before impairments	374.9	378.4	1.0%
Provisions and impairments	136.1	294.6	116.5%
Income from subsidiaries held for sale	10.3	10.8	4.9%
Income from associated companies	0.4	0.8	76.4%
Net Income before tax and non-controlling interest	249.5	95.4	-61.8%
Tax	37.4	3.6	-90.2%
Non-controlling interest	72.7	36.1	-50.4%
Net income	**139.4**	**55.7**	**-60.1%**

(€ millions)

(*) Pure intragroup transactions with no impact on consolidated net income are not eliminated

The largest contributors to net income from international activity in 2016 were BNU Macau (€63.1 million), the Issuer's France branch (€40.5 million, amount excluding the non-recurrent net profit of €28.1 million), BCG Angola (€26.3 million) and BCG Spain (€25.4 million).

Non-consolidated Accounts for the Year 2016

CAIXA GERAL DE DEPÓSITOS, S.A.

UNAUDITED ACCOUNTS NON-CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2015 AND 2016

(€ millions)

ASSETS	December 2015 (*)	December 2016
Cash and cash equivalents at central banks	1,773.9	867.4
Cash balances at other credit institutions	463.8	372.4
Financial assets held for trading	2,578.2	6,421.5
Other financial assets at fair value through profit or loss	570.1	547.8
Available-for-sale financial assets	17,200.9	9,029.9
Financial assets with repurchase agreement	770.7	421.9
Loans and advances to credit institutions	4,937.5	4,180.8
Loans and advances to customers	54,390.6	52,013.5
Hedging derivatives	46.5	9.5
Non-current assets held for sale	386.8	341.5
Investment property	3.0	3.3
Other tangible assets	347.9	318.9
Intangible assets	81.0	77.8
Investments in associates and jointly controlled entities	3,765.1	3,654.4
Current tax assets	15.6	9.5
Deferred tax assets	1,262.9	2,331.4
Other assets	2,230.6	2,398.1
Total Assets	**90,825.2**	**82,999.8**
LIABILITIES AND EQUITY		
Resources of central banks	1,342.8	2,090.9
Financial liabilities held for trading	1,706.5	1,675.7
Resources of other credit institutions	4,364.1	3,863.0
Customer resources and other loans	61,950.1	58,649.3
Debt securities	6,686.1	4,216.6
Financial liabilities associated with transferred assets	4,347.8	4,087.8
Hedging derivatives	15.3	2.2
Provisions	867.7	1,088.1
Current tax liabilities	8.0	10.7
Deferred tax liabilities	120.5	157.9
Other subordinated liabilities	2,604.4	2,622.3
Other liabilities	1,957.1	2,047.1
Total Liabilities	**85,970.3**	**80,511.6**
Share capital	5,900.0	5,900.0
Revaluation reserves	368.0	115.9
Other reserves and retained earnings	(1,601.9)	(1,548.5)
Net income for the year	188.8	(1,979.3)
Total Equity	**4,854.9**	**2,488.1**
Total Liabilities and Equity	**90,825.2**	**82,999.8**

(*) The December 2015 values have been restated as a result of Notice 5/2015 of 7th December from Bank of Portugal, which lead to the application of IAS 39 for the calculation of impairments losses in credits and other receivables

CAIXA GERAL DE DEPÓSITOS, S.A.

UNAUDITED ACCOUNTS NON-CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2016

(€ millions)

	December 2015 (*)	December 2016
Interest and similar income	2,241.5	1,939.4
Interest and similar expenses	(1,617.3)	(1,274.4)
NET INTEREST INCOME	624.2	664.9
Income from equity instruments	438.6	57.5
Income from services and commissions	440.3	435.1
Costs of services and commissions	(92.8)	(85.6)
Net results of assets and liabilities measured at fair value through profit or loss	88.8	(76.1)
Net gain on available-for-sale financial assets	210.9	95.5
Net foreign exchange revaluation gain	12.6	13.5
Net gain on the sale of other assets	147.6	(17.2)
Other operating income	34.2	10.2
TOTAL OPERATING INCOME	1,904.3	1,097.9
Employee costs	(590.8)	(503.7)
Other administrative costs	(345.4)	(322.0)
Depreciation and amortisation	(69.5)	(65.8)
Provisions net of reversals	(27.5)	(314.9)
Correction of the amount of loans and advances to customers and receivables from other debtors, net of reversals	(481.5)	(2,257.9)
Other financial assets impairment net of reversals and recoveries	(95.7)	(214.8)
Other assets impairment net of reversals and recoveries	(3.7)	(237.6)
INCOME BEFORE TAX	290.3	(2,818.7)
Income tax		
Current	(84.9)	291.5
Deferred	(16.6)	547.9
	(101.5)	839.4
NET INCOME FOR THE YEAR	188.8	(1,979.3)
Average number of ordinary shares outstanding	1,180,000,000	1,180,000,000
Earnings per share (in Euros)	0.16	(1.68)

(*) The December 2015 values have been restated as a result of Notice 5/2015 of 7th December from Bank of Portugal, which lead to the application of IAS 39 for the calculation of impairments losses in credits and other receivables

Current Distributable Items for the Issuer are calculated by deducting from the capital reduction of €6 billion that took place on 4 January 2017 the sum of outstanding reserves and retained earnings with net income for the Issuer as of 31 December 2016. Therefore, current Distributable Items for the Issuer amount to €1.8 billion.

Domestic Activity

Investment Banking

As at 31 December 2016, Caixa - Banco de Investimento, S.A. ("**CaixaBI**"), according to its statutory unaudited consolidated accounts, had a total operating income of €59.3 million, of which €19.6 million comprising net interest income, €28.4 million in commissions (net) and €15.6 million in income from financial operations. CaixaBI's net income of €2.9 million was penalised by an allocation of €28.5 million to increase provisions and impairment in the period.

CaixaBI's contribution to the Group's consolidated net income was a negative €1.8 million.

Notwithstanding the unfavourable international context and instability of the Portuguese financial sector, CaixaBI succeeded in participating in the domestic market's major investment banking operations, achieving the recognition of its customers and partners, consolidating its leading position in the main sector rankings and winning several important international distinctions.

In 2016, CaixaBI was distinguished for the third consecutive time with the "Best Investment Bank in Portugal" prize from Euromoney magazine, having already been awarded the same distinction during the course of the year by other reputable financial publications such as Global Finance, World Finance and EMEA Finance.

EMEA Finance also emphasised CaixaBI's role in promoting Portugal in the international debt markets in the form of its Achievement Award.

The fact that CaixaBI participated in most of the major M&A operations in Portugal, in 2016, with an aggregate value of around €4.6 billion, enabled it to retain the lead of the Portuguese ranking of advisory services for M&A operations.

As regards the capital market, CaixaBI continued to operate as a benchmark institution in Portugal's debt market, namely in the bond and commercial paper segments, coming first in the Bloomberg ranking for bookrunners of bonds issued by national entities, for the ninth time in the last ten years.

CaixaBI continued to occupy a leading position in the commercial paper segment in Portugal, having organised and led 10 new programmes for more than €1 billion across the year.

There were also 153 commercial paper issuances, comprising a volume of €4,028 million, across the year of which CaixaBI's sales to its domestic investors network totalled €3,830 million.

CaixaBI was involved in diverse project finance operations, in 2016, particularly:

- Energy sector: analysis of opportunities in the renewable energies segment;
- Water sector: analysis of economic-financial rebalancing processes;
- Renewable energies in Spain: oversight of restructuring processes in progress in various projects;
- Domestic road concessions: oversight of the renegotiation processes of several sub-concessions;
- International road concessions: oversight of a collection of road projects in Spain and Ireland.

CaixaBI was involved in around 20 projects with customers in various sectors of activity, in 2016, having successfully concluded its participation in acquisition finance and financial reorganisation operations projects for a total amount of more than 370 million.

CaixaBI's activity as a liquidity provider maintained high performance levels, in continuing to operate on a series of securities such as Cofina, Orey Antunes, Altri, Inapa, Ibersol and SAG Gest, listed on Euronext Lisbon, with Euronext having attributed its maximum 'A' rating to CaixaBI on all securities and categories. CaixaBI also continued its market-making operations on a Fundiestamo real estate fund.

Caixa Capital currently manages five venture capital funds, whose sole investor is the Issuer, covering the whole of the corporate life cycle, from early (pre-seed and seed capital) stages to growth capital operations, obviously excluding the financial restructuring area of companies in which the Group is involved via third party managed funds.

Of all funds under management, the amount invested at the end of 2016 was €323 million, of which €184.5 million in companies and €138.8 million in funds and other indirect investment vehicles. Several undertakings and operations which have also been approved but which did not proceed could add €65.9 million to the amount invested.

Greater efforts were put into the procurement of new investment opportunities, in 2016, with the analysis of 211, of which 22 were approved, for a total amount of €13.8 million. 42 investments (13 new and 29 additional portfolio capital investments totalling €45.7 million) proceeded. There were also 18 disinvestment operations (7 of which full disinvestments) with a realisation price of €25.1 million.

Specialised Credit

Caixa Leasing e Factoring, Instituição Financeira de Crédito, S. A. (CLF) represents the Group in the specialised credit area and operates in the financial leasing (real estate and equipment leasing), factoring (domestic, international and confirming) and consumer credit sectors.

Net assets were up by around 1 per cent., owing to the 2.2 per cent. increase in the size of its loans and advances to customers portfolio (net). Reference should be made to the €38.8 million reduction of overdue credit, accompanied by a €48 million decrease in the provisions and impairment account heading.

The total operating income reduced compared to 31 December 2015, owing by the decrease in net interest income. Operating costs registered a 7.0 per cent. reduction (down €1.0 million) and the provisions and impairments an increase over 2015. Caixa Leasing e Factoring had net income of €142,000 at 31 December 2016.

CLF contributed €92,000 to the Group's consolidated net income.

Although real estate leasing sales were down 5.9 per cent. over 2015 to €102 million, there was a 14.7 per cent. increase in the number of operations, translating a reduction in the average value per operation.

Equipment leasing sales were up 10.7 per cent. over the preceding year to €296 million as at 31 December 2016. Loans for purchases of light vehicles were up 4.1 per cent. to around 40.4 per cent. of the business's global sales.

Confirming activity, although representing no more than 32.4 per cent. of this business's sales were up by a year-on-year 33.1 per cent.

Factoring was up by around 21.2 per cent. in comparison to December 2015 to €2,838 million.

The 98.3 per cent. increase in traditional credit sales over the 2015 total is explained by the introduction of vehicle loans with reservation of ownership.

Asset Management

The amount of assets under Caixa Gestão de Ativos management, as at 31 December 2016, was down 4.6 per cent. over 2015 to €27,440 million. This decrease particularly derives from the adverse effects associated with falling Euribor rates and changes to legal/fiscal aspects of legislation on real estate investment funds. It should be noted that this downwards trend was felt across the whole of the domestic investment funds market.

In such a context, Caixa Gestão de Ativos has continued to commit to diversify its offer with the aim of mitigating the volatility and risk attached to financial products, by means of positive differentiation, based on the continuous training of its managers and, of major importance, Caixagest consultants on the Issuer's branch office network as the main sales channels for the funds.

Net income from the assets management area amounted to €15.0 million, in 2016, with a contribution of €5.6 million to the Group's consolidated net income.

The Portuguese market for investment funds contracted 7.2 per cent., in 2016, as a result of lower fund yields in the Euribor tracker money market funds. Caixagest managed funds, which are highly exposed to the said fund category, were also affected by this trend and were down 15.9 per cent. by €667 million.

Notwithstanding this environment, Caixagest, as opposed to other fund managers, succeeded in achieving growth of 16.2 per cent. in its multiactive funds.

Caixagest managed 28 unit trust investment funds for an amount of €3,519 million invested in diverse international financial markets, as at 31 December 2016.

Commissions earnings from unit trust investment funds were down 22.4 per cent. over the preceding year to €20.8 million.

Fundger is responsible for managing the real estate development projects of 20 closed-end funds and the Fundimo fund which is the largest Portuguese open-ended real estate fund with a global net worth of €563 million. The total value of the unit trust investment funds managed by Fundger, as at 31 December 2016, amounted to €950 million.

Revenue generated by unit trust investment funds was down 15.6 per cent. over the end of the preceding year to €10.1 million, owing to the dip in the commissions earned by the Fundimo fund and the exit of four major funds which were closed during the year.

The value of the closed pension funds managed by CGD Pensões was up 3.8 per cent., as at 31 December 2016, as a result of the inclusion of a new fund. Open-ended funds, in turn, were down 16.3 per cent. owing to an exceptional number of redemptions occurring at the start of the year.

The net worth of the funds managed by CGD Pensões, at the end of the year, was down 0.7 per cent. over 2015 to €3,440 million.

Commissions earnings from pension funds, in 2016, were down by a year-on-year 8.6 per cent., to €6.1 million.

The value of the portfolios (excluding pension funds) managed by Caixagest was down 2.0 per cent. in 2016, in line with the trend in the domestic wealth management industry, at an end-of-year €19,530 million.

As opposed to the rest of the market, Caixagest continued to successfully promote its wealth management service for individual and institutional customers, based on a proximity approach to the Issuer's branch office network with the aim of securing new customers.

As at 31 December 2016, the income generated by the wealth management service was down 0.3 per cent. over 2015 to €11.6 million.

The Group's main geographical markets

Spain

BCG Spain comprises a network of 110 branches located in zones bordering Portugal and in other communities with major levels of economic activity including Madrid, Catalonia, Basque Country, Asturias, Valencia and Aragón. It continued to have 520 full time employees.

The Bank's services to Spanish and Portuguese companies operating in the Iberian and external markets, translated into a 30 per cent. growth of €296 million in corporate loans over 2015. As a result of this policy the credit portfolio (net) was up 7.1 per cent. to €3,310 million, with the growth of corporate loans more than offsetting the reduction of repayments on the mortgage loans portfolio. BCG Spain had a 0.26 per cent. market share of loans made by the Spanish banks.

Overdue credit and credit in arrears account for 3.4 per cent. of total credit, one of the lowest in the Spanish banking system as a whole.

Resources were up €142 million to €2,760 million. This annual evolution counteracts the downwards trend occurring in Spain and was achieved in spite of the sharp fall in interest paid to customers.

The increase in deposits enabled the Bank to maintain a loans-to-deposits ratio of 120 per cent.

In operational terms, net interest income, including income from equity instruments, was down 8.8 per cent. at slightly less than the sector average, owing to the impact of negative Euribor rates and lower spreads and mainly the €9.6 million drop in income from the securities portfolio, with the increase in the amount of lending having been offset by the lower price.

Net commissions earnings were up by a slight 2.3 per cent., with the 23.2 per cent. reduction of other operating income deriving exclusively from the €5.5 million reduction in income from financial operations.

Total operating income, reflecting the performance of net interest and other operating income was down 11.6 per cent. to €97.9 million.

Operating costs, which have been contained at minimum levels following the restructuring operation in 2013/4, were up 1 per cent. over the preceding year to €56.8 million. The cost-to-income ratio was 58 per cent.

Provisions and impairment for the period, translating improved credit risk, stood at €4.7 million.

Income before tax was slightly up over the preceding year to €36.4 million, while, net of tax, amounting to €25.5 million, permitting the maintenance of a level of return corresponding to almost 5 per cent. of the Bank's share capital.

France

The French branch, CGD France mainly focuses on Portuguese-speaking communities with one of its main objectives consisting of assisting Portuguese companies operating in France, both in the sphere of bilateral trade between the two countries and the free provision of services.

CGD France's balance sheet, as at 31 December 2016, was down 21.1 per cent. over the same date in 2015 to €4,689 million. Contributory factors were reductions of investments in credit institutions and loans and advances to customers, offset by the reduction of liabilities, customer resources, credit institutions' resources and debt securities.

Loans and advances to customers (net) were down 4.2 per cent. over 2015 to €3,762 million. This evolution derives from the smaller international portfolio. However, loans and advances to customers made by the domestic network were up 5.6 per cent., mainly on account of the positive year-on-year 12.9 per cent. increase in corporate lending as loans and advances to individual customers were down 2.3 per cent. over last year.

Customer resources were down 15.7 per cent. over 2015 to €2,168 million owing to a lower level of treasury activity. The change, in the case of the domestic network was a positive 3.7 per cent.

Net interest income was slightly down by 0.2 per cent. in comparison to December 2015 to €97.9 million.

Other operating income, with a negative net balance of €6.9 million, on the one hand, recorded an increase in other direct tax while, on the other, derived from extraordinary situations such as real estate revaluations.

Other operating income was up €43.5 million owing to the exceptional increase of income from financial operations in generating capital gains of €45.8 million, owing to a treasury operation. Although total net commissions were down 1.5 per cent., commissions earnings from the domestic network were up 1.6 per cent.

Excluding the referred to capital gains, net operating income before impairment from CGD France's current operations stood at €61.9 million.

Credit impairment, as at 31 December 2016, comprised an accumulated net appropriation of €7.6 million during the year, resulting from the application of more exacting risk-related criteria.

Net income for 2016 also benefited from a €1.6 million reversal of provisions for fiscal contingencies.

CGD France achieved net income of €74.9 million, in 2016, up €25.5 million over 2015.

Macau

Banco Nacional Ultramarino (BNU Macau) continues to perform a commercial banking activity while, at the same time, operating as one of the two banks responsible for the issuance of currency (MOP) in the Special Administrative Region of Macau ("**Macau**"), in a context of a continual increase of currency in circulation.

BNU Macau has witnessed the transformation and economic development of Macau and is an important connecting and economic cooperation platform among Lusophone countries and China, namely Macau.

The average number of products per active customer increased to 3.49 in 2016, against 3.41 in 2015.

In opening its Hengqin branch, on 18 January 2017, BNU Macau was the first local bank in Macau to open a branch on mainland China (having been authorised to trade in renminbi) and the Group was the first international financial group to open a branch in the Hengqin Free Trade Zone.

Notwithstanding the existence of an unfavorable economic climate in the Special Administrative Region of Macau and greater competition in the banking sector, BNU Macau continued to perform well in terms of the evolution of its solvency, liquidity and profitability, namely in deposit-taking and lending operations.

BNU Macau's total assets were up by an annual 3.6 per cent. by MOP 2,329 million.

In terms of the evolution of BNU business, reference should be made to the 1.6 per cent. growth of customer resources, with a loans-to-deposits ratio of 50.4 per cent. against 52.3 per cent. in 2015.

Loans and advances to customers (net) were down 2.1 per cent. to MOP 25,973 million.

BNU's net interest income, in 2016, was up 7.2 per cent. by MOP 51.3 million over 2015, particularly on account of better liquidity optimisation management.

Net commissions were down 7.6 per cent. by MOP 15.3 million over the period under analysis, owing to lower commissions earnings on syndicated credit operations.

Income from cards, however, was up 3.3 per cent., owing to improved customer loyalty and more cross-selling of products, notwithstanding the hugely negative impact deriving from the contraction of the tourism and gambling sectors.

Total operating income was up 4.6 per cent. over 2015 to MOP 1,040.4 million.

Global employee costs were up 3.2 per cent. over the preceding year, with an increase of around 2 per cent. in the number of employees. Administrative costs, on the other hand, were up 3.4 per cent. owing to major containment in the procurement area, notwithstanding the existence of inflationary pressure in the Territory and opening of a branch and a subsidiary.

The level of depreciation for the year was similar to last year, at 0.4 per cent.

Reference should be made to the decrease of the efficiency ratio to 32.6 per cent. in 2016, against 33.2 per cent. in 2015.

Impairment and provisions (net) were up 4.5 per cent., over 2015, as a consequence of the increase in collective impairment.

The solvency ratio was 15.3 per cent., in 2016, against 14.0 per cent. in 2015.

The Bank's net income was therefore up 7.1 per cent. by MOP 36.7 million over the preceding year to MOP 557.9 million.

Mozambique

Notwithstanding the deceleration of Mozambique's rate of economic growth, in 2016, BCI consolidated its lead in the domestic banking system as measured by its end-of-year market share of credit, deposits and assets of 30.34 per cent., 29.23 per cent. and 28.53 per cent., respectively.

BCI's global assets were up 14.5 per cent. by MZN 18.2 billion to MZN 143.5 billion, as a reflection of the effects of the increase in the portfolio of loans and advances to customers, investments in credit institutions, financial assets and claims on the Bank of Mozambique.

As a result of the sophistication and innovation of several solutions in the sphere of loans and advances to individual customers and companies, the loans and advances to customers (net) portfolio was up 18.9 per cent. by MZN 13.3 billion, over the same period last year to MZN 83.9 billion at the end of 2016.

Customer resources, at 31 December, were up 12.2 per cent. by 11.2 billion to MZN 103.2 billion against MZN 92.0 billion for the same period 2015, fueled by the volume of foreign currency resources with a 43.8 per cent. increase of MZN 9.98 billion, owing to the impact of foreign currency changes.

The Bank had a shareholder's equity of MZN 10.8 billion, in comparison to MZN 10.2 billion at the end of 2015.

In terms of its results the Bank recorded a positive 14.4 per cent. increase in its total operating income over 2015, owing to the 51.0 per cent. growth of MZN 2.1 billion in net income to MZN 6.2 billion.

Other operating income was down MZN 0.8 billion to MZN 3.5 billion, owing to a lower level of income from financial operations and other operating income.

The 1.0 billion MZN increase in impairment, mostly related to the fair value resulting from the depreciation of securities in the capital market for the amount of MZN 0.6 billion and the 16.5 per cent. growth of operating costs, also made a decisive contribution to the reduction of MZN 0.4 billion in BCI's net income of MZN 1.4 billion, in December 2016, in comparison to the preceding year.

The referred to increase in operating costs originated a slight increase in the cost-to-income ratio of 63.2 per cent. in 2016.

Cape Verde

The activity of BCA in 2016 was marked by its ongoing commitment to improve the quality of services provided to its customers.

BCA continues to lead the credit and customers' deposits market, which, according to the latest information stood at 36 per cent. and 39 per cent., respectively.

As at 31 December 2016, the BCA's net assets of CVE 84,806 million, comprised a 3.9 per cent. increase of CVE 3,213 million over 2015.

Loans and advances to customers (net) were up CVE 1,059 million. It should be noted that the performing credit portfolio evolved by a positive 2.4 per cent. over 2015, with a growth of 5.7 per cent. for companies.

The growth in corporate loans mainly derives from the line of credit for small and medium sized enterprises (SMEs), self-employed workers in different sectors and micro-credit associations, for a global amount of CVE 1 million. In turn, mortgage lending for own home purchases and buy-to-let which represents an exposure of 39.2 per cent. in BCA's credit portfolio structure, was down 2.1 per cent. over 2015.

Reference should be made to the 13 per cent. reduction of non-performing credit over 2015, partly on account of the work performed by the Credit Recovery Office.

Customer resources, as the Bank's main source of finance were up 5.0 per cent. and particularly included an 11 per cent. growth of sight deposits.

Term deposits, including savings accounts, were up 2.1 per cent. Emigrants' deposits that account for 49.5 per cent. of the Bank's total resources, up 4.8 per cent. over the period under analysis, demonstrated the emigrant community's continued confidence in the Bank.

BCA's net income of CVE 285.9 million, in 2016, was down by a year-on year 30.6 per cent. This result was heavily affected by the 204.7 per cent. increase of CVE 259.5 million in provisions and the 1.7 per cent. drop in net interest income.

Other operating income was down 5.5 per cent. by CVE 33.5 million owing to the lower yield on TCMFs (Consolidated Financial Investment Certificates) from 2.29 per cent. as at 31 December 2015 to 0.29 per cent., as at 31 December 2016, as well as the 27.9 per cent. decrease of CVE 45.3 million in income from financial operations.

Operating costs were down 2.7 per cent., in 2016, owing to the favorable evolution of general administrative expenses which were down 9.1 per cent. owing to the containment policy on expenses implemented over the last few years. Employee costs were down 0.7 per cent. notwithstanding the fact that new hirings surpassed the number of exits.

The fall in operating costs, which was proportional to the fall in total operating income, led to the stability of the cost-efficiency indicator at 74.5 per cent. as at 31 December 2016.

In 2016, Banco Interatlântico ("**BI**") backed by its branch office network, specialised offices for corporate and individual customers and its major customers unit, developed a commercial approach aimed at improving its customer service and consolidating its position in the major enterprises', institutional and individual customers' segments.

Net assets, at 31 December 2016, were up 11.7 per cent. by CVE 2,921 million over the preceding year to CVE 27,878 million. This evolution largely derived from the significant growth of around 47 per cent. in investment in credit institutions and 8.9 per cent. growth of loans and advances to customers.

Net credit was up 8.9 per cent. compared to December 2015 to CVE 16,703 million. Gross credit was up 7.7 per cent. to a market share of 13.6 per cent. The growth of new operations, in 2016, was higher than global portfolio repayments, most of which with a maturity of up to 5 years and, as such, with a high level of annual repayments.

In line with the evolution of preceding years, the BI's credit portfolio, as at 31 December 2016, it continued to be concentrated in the corporate segment (63.5 per cent.).

Loans and advances to individual customers were up 8 per cent. owing to the commercial reinvigoration of this segment that continues to have lower default rates.

As a result of BI's commercial operations, which particularly focused on the recovery of non-performing credit, reference should be made to the 14.9 per cent. reduction of the BI's total overdue credit, particularly corporate loans (down 20 per cent.). The overdue credit ratio was down 3.9 pp by 19.9 per cent. year-on-year 2015. Impairment coverage, as at 31 December 2016, was 45.8 per cent. in comparison to the preceding year's 41.7 per cent.

On the liabilities side, total customer deposits were up 13.1 per cent. over 2015 to CVE 24,896 million. This evolution derives from the 18.1 per cent. increase of CVE 2,423 million in term deposits and 5.3 per cent. increase of CVE 445 million in sight deposits.

Customer resources were up 13.0 per cent. and market share up from 12.9 per cent. to 13.7 per cent.

The increase in resources is the result of the more marked increase of 14.2 per cent. in the growth of corporate deposits, owing to the BI's commitment to this segment. Notwithstanding the fact that it remains balanced, the deposits structure was reversed, with the corporate segment now accounting for 50.2 per cent. of total customer deposits.

The loans-to-deposits ratio was 67.1 per cent., in 2016, down 2.5 pp over the preceding year.

Net interest income was up 17.1 per cent. by CVE 76.7 million in comparison to December 2015. This growth was a major beneficiary of the 11.3 per cent. increase of CVE 127.6 million in interest on lending activities which was much higher than the 11.3 per cent. increase of CVE 50.9 million in funding costs.

The 15.3 per cent. growth of CVE 29.6 million in other operating income essentially derives from the 32.5 per cent. positive evolution of CVE 33.3 million in commissions earnings and 19.3 per cent. growth of CVE 8.4 million in income from financial operations. This resulted in a 13.6 per cent. increase of CVE 90.1 million in total operating income over 2015.

Operating costs were up 4.3 per cent. by CVE 24.3 million, owing to the 5.8 per cent. increase in the employee costs and 4.1 per cent. increase in general administrative costs account headings. Employee costs were up CVE 13.5 million to CVE 246.6 million, owing, on the one hand, to the structural costs of the current wage rules that significantly increase employees' salaries and, on the other, to the recognition of the salary readjustment of the statutory bodies.

Cost rationalisation policies continued through 2016. BI, however, continued to incur high levels of expenditure on restructuring processes, having recognised CVE 291.3 million in general administrative expenditure (up CVE 11.5 million over 2015). Operating costs in conjunction with the evolution of total operating income were responsible for a cost-to-income indicator of 78 per cent., down 6.9 pp over the same period last year.

The significant increase of impairment, up 89.3 per cent. over 2015 to CVE 156.3 million, contributed to a net income level of CVE 5.6 million, down CVE 11.6 million in comparison to December 2015.

In terms of its financial strength, BI complied with all of the prudential indicators required by the Bank of Cape Verde, with all ratios being higher than the minimum legal requirements, particularly the solvency ratio at 14.78 per cent.

Brazil

Banco Caixa Geral – Brasil continued to adopt a more conservative approach, reducing its exposure to the retraction occurring in the Brazilian economy and committing to Portuguese companies and sectors with low levels of exposure to the recessionary climate in the Brazilian economy.

Banco Caixa Geral – Brasil continues to invest in its relationship with the Portuguese-Brazilian community. This business, with its major potential, is fundamental for changing the perception of Banco Caixa Geral - Brasil into a bank with Portuguese roots, taking advantage of the Group's credibility in this community.

At the end of 2016, Banco Caixa Geral – Brasil changed its structure with the aim of improving its commercial efficiency. The measures taken will enable it to continue to control its operating costs in 2017.

Net assets of BRL 2,168 million, at the end of 2016, represent growth of BRL 58.1 million over the preceding year.

The credit operations portfolio in the balance sheet was down 21.4 per cent. to BRL 628 million at the end of 2016. Customer resources, in turn, were up 6.1 per cent. over 2015 to BRL 787.4 million

Resource-taking from third parties ended 2016 with BRL 1,650 million, up 9 per cent. in comparison to 31 December 2015.

As a result of the above referred to evolution, the loans-to-deposits ratio at the end of 2016 was 76.7 per cent., down 35.35 pp over the end of 2015.

Notwithstanding the 25.1 per cent. drop of BRL 28.4 million in net interest income, the favorable evolution of income from financial operations and other operating income, up BRL 36.9 million and BRL 1.9 million, respectively, over the preceding year, was responsible for the positive performance of total operating income in 2016, which was up 11.0 per cent. by BRL 9.8 million over 2015 to BRL 98.3 million.

Banking activity costs were up 5.7 per cent., over 2015, albeit lower than the accumulated inflation of 6.3 per cent. over the last 12 months and were, in conjunction with the positive evolution of total operating income, responsible for a cost-to-income ratio of 56.8 per cent., down 2.85 pp over 2015.

In 2016, net operating income before impairment was BRL 42.4 million. This amount represents an 18.9 per cent. improvement of BRL 6.7 million over 2015.

Total credit provisions, in 2016, were BRL 32.7 million against BRL 85.9 million in 2015.

Net income from banking activity was a positive BRL 5.3 million against a negative BRL 25.5 million at the end of 2015.

East Timor

The Issuer has a presence in East Timor in the form of a branch operating under the BNU Timor banner which is the oldest bank in Timor's financial system, where it has operated since 1902. This is a benchmark universal bank which covers the whole of the territory with the largest branch office network and local ATMs (14 branches and 14 ATMs), covering different districts.

Owing to the expansion of its ATM and POS network, BNU Timor leads the market with a market share of 80 per cent. in this supply segment.

The BNUdireto (internet banking) service was successfully introduced and transactions have already migrated to this channel. The Mobile Money pilot project that the Central Bank has authorised BNU Timor to perform continues to develop gradually.

Notwithstanding the uncertainties of the country's economic circumstances, the evolution of the Timor branch, was globally favorable, in its consolidation of positive results, adding value to its own funds, endeavoring to avoid exposure to major risk and continuing to focus on exacting criteria and a rationale geared to profitability.

The branch has improved its internal control and risk management processes, over the last few years, namely credit, in endeavoring to mitigate the risks by splitting up its portfolio over more operations with a lower individual value.

2017 will be a challenging year owing to new, more difficult and highly unpredictable contexts, (with two elections and an additional two Indonesian commercial banks in the market).

The branch's net assets were up 53.6 per cent. by USD 158.7 million, year-on-year, to USD 454.9 million at the end of December 2016 owing to the 61.5 per cent. increase of USD 148.9 million in the investment in credit institutions aggregate.

Loans and advances to customers, in December 2016, were up 10.5 per cent. by USD 2.1 million in terms of corporate loans and 1.9 per cent. by USD 0.4 million in lending to individual customers, over the same period of the preceding year.

Overdue credit was down 33.7 per cent. by USD 12.8 million, year-on-year, to USD 25.2 million and impairment on loans and advances to customers posted an improvement of USD 14.3 million (27.9 per cent.), resulting from asset write-offs of USD 12.6 million.

Tangible and intangible assets (net) were up 22.5 per cent. and 7.2 per cent., in comparison to December 2015, to USD 4.6 million and USD 1.3 million, respectively. This increase derived from the investments made in electronic channels and internet banking platforms, the implementation of the PFS portal and branch office remodeling activities.

The branch had liabilities of USD 449.4 million, in 2016 (up 53.0 per cent. by USD 155.7 million over the preceding year) in which contributory factors were customer resources with USD 126.9 million (up 58.2 per cent. on account of the state's budget allocation of around USD 242 million to the ZEESM "Special Zone for the Social Market Economy in Oecussi") and other credit institutions' resources with USD 28.9 million, up 40.0 per cent., mainly on account of the increase in investments by the Central Bank of East Timor for the amount of USD 24.0 million.

Net interest income was up by a year-on-year 53.5 per cent. to USD 8.7 million, although reference should be made to the fact that the values in respect of 2015 were influenced by the occurrence of two extraordinary situations across the year, one of which comprising the one-off payment of USD 0.4 million in interest in respect of an operation that matured in 2010 and the cancellation of a carry-back of interest for past years for the amount of USD 2.3 million.

Net commissions were up 34.4 per cent. by USD 0.5 million in comparison to December 2015 to USD 2.0 million.

In December 2016, income from financial operations of USD 0.8 million, was up 13.2 per cent. over the preceding year.

There was also a 38.3 per cent. increase of USD 0.1 million in other operating income from commissions resulting from the greater use of electronic channels.

These results generated total operating income of USD 11.8 million, up 46.1 per cent. in comparison to December 2015.

Following the 0.4 per cent. deduction of USD 6.9 million in structural costs, net operating income before impairment of USD 4.9 million was significantly up over the preceding year (302.2 per cent.). Not including the cancellation of overdue interest of USD 2.3 million in 2015, the change would be 39.7 per cent.

Owing to the cancellation, the impairment and provisions aggregate posted income of USD 1.5 million (down USD 0.3 million year-on-year) as a result of the positive effect of the provisions deriving from the referred to cancellation of interest in 2015.

The tax bill, in December 2016, was USD 0.7 million.

Net income, as at 31 December 2016, was up 113.3 per cent. by USD 3.1 million to USD 5.7 million, over the same period of the preceding year, owing to the effect of the positive contributions made by net interest income (USD 3.0 million) and other operating income (USD 0.7 million).

There was a 26.6 pp improvement in the cost-to-income ratio over 2015 to 58.3 per cent.

Risk Management

The person ultimately responsible for the Group's risk management function is its chief risk officer ("**CRO**"), who is a member of the Issuer's board of directors' executive committee. The Issuer's CRO has global responsibility for overseeing the Group's risk management framework and for particularly ensuring the adequate and effective operation of the risk management function and also having the duty to inform members of the management and inspection bodies and explain the risks involved, the Issuer's and the Group's global risk profile and the level of compliance with the defined risk tolerance levels.

The Group's risk management function is based on a governance model which simultaneously aims to comply with best practice on the matter, as set out in Community Directive 2013/36/EU to guarantee the strength and efficacy of the measurement, monitoring, report and control system on the credit, market, liquidity and operational risks incurred by the Group.

Risk management is centralised and backed by a dedicated structure – Risk Management Division – for which the CRO is responsible, pursuant to which the Models Validation Office, for the internal validation of the risk assessment models used in the Group, was set up, at the end of 2016, with the aim of incorporating the principle of separation between the owner functions of the risk models and assessment of their respective quality.

The Risk Management Division operates in the area of the management and control of the Group's financial and operational risks, with the objective of achieving stability, solvency and financial strength, guaranteeing the identification, assessment, oversight, control and reporting functions of the financial and operational risks to which the Group is exposed and their existing interrelationships, to ensure the coherent integration of their part contributions, that they remain in line with the risk appetite defined by the board of directors and that they will not significantly affect the institution's financial situation, by continually ensuring compliance and conformity with external standards and legal and statutory requirements on such matters.

Main developments in 2016

During the course of 2016, the Issuer's progress in respect of the best risk management practice was significant and comprehensive. Particular reference should be made to the following:

- Pursuant to EBA guidelines on the internal governance of banking institutions, on 15 December 2016 the board of directors of the Issuer approved its internal risk management function regulation ("**Regulation**"), setting out the mission, responsibilities and competence of the Issuer's risk management function, in addition to the principles, rules and duties governing the performance thereof.

The Regulation defines the corporate model guidelines on the risk management function of the Group ("**guidelines**"), covering matters related with its organisational framework, activity planning, oversight mechanisms, risk monitoring and communication, management of the risk management system's support regulations, governance of risk models and the requirements applicable on a level of the internal control system.

The guidelines aim to establish an integrated risk management system operating model, backed by permanent cooperation between the risk management function (RMF) of the parent company and the RMF of other entities based on the principles set out in the Regulation in order to permit the appropriate comprehension of the nature and magnitude of the risks underlying the Group's activity and therefore ensuring that they remain in accordance with the levels previous defined by the Issuer's management body.

The Group's risk management governance is guided by risk appetite as expressed by the Issuer. In the form of a risk appetite statement, which is periodically revised and approved by the Issuer's board of directors, the Group's risk management priority is defined, on the basis of which the RMF defines its annual workplan. Each Group entity, in alignment with the values of the Group's risk appetite declaration, should develop and maintain its own risk appetite framework, capable of recognising the specific risk dimensions in respect of their strategy and business model.

- At the end of the year and pursuant to the Issuer's endeavours to improve its risk management practice, its risk appetite framework or RAF, was revised and updated and complemented by the Group's risk appetite statement or RAS), with the objective of defining the governance model and involvement of the Bank's different areas, risk management and monitoring mechanisms and the integration of the risk appetite framework in the risk management and decision-making processes.

  The risk appetite governance model formalises the global approach, including policies, processes, controls and systems, on which risk appetite is established, communicated and operationalised and pursuant to which the following items have been defined:

  - Areas involved and their respective functions and responsibilities,
  - Responsibilities for metrics and limits,
  - Risk monitoring and reporting choreography,
  - Response mechanisms to breaches of the level of tolerance or limit,
  - Risk appetite integration model in management practice,
  - Processes for the revision and updating of RAS/RAF,
  - Cascade process of metrics and limits for Group entities.

  The revision and updating of the Group's RAF and RAS were based on the expanded involvement of the Issuer's executive committee, its CRO (chief risk officer); DGR (Risk Management Division) and the top management of other functional and business divisions.

- Work continued to be carried out on consolidating the customer follow-up workflow, improving flexibility in automatically transferring customers showing signs of financial difficulties, to specialised credit recovery areas. The follow-up workflow is based on a computer platform that segments customers based on differentiation criteria using credit risk indicators, used on a day-to-day basis by commercial and credit recovery areas. Metrics and indicators subject to the proximity supervision provided for in the monitoring reports produced by the Risk Management Division were defined for the purposes of monitoring the process.

- The governance models of the Group's internal capital adequacy and liquidity assessment processes (ICAAP and ILAAP, respectively), were formalised at the end of 2016 with the publication of the respective internal corporate standards

- In the first quarter of 2016, the Issuer oversaw best practice in the domain of the composition of the high quality liquid assets – HQLA – to be maintained by banks as collateral for different liquidity stress scenarios, in conformity with article 8 (1) of Regulation (EU) 575/2013, with the ALCO Committee's approval of the "Guidelines for the high quality liquid assets buffer" of the LCR (liquidity coverage ratio). The guidelines establish objectives for diversifying HQLA stock by issuing entity or guarantor and geography.

- In the fourth quarter of 2016 witnessed the implementation of a new definition of default in line with the European Banking Authority's final report: "Guidelines on the Application of the Definition of Default under article 178 of Regulation (EU) no. 575/2013", published on 28 September 2016.

- Work began, during the course of the second half of 2016, on the first stage of the implementation project of IFRS 9 in the Group, permitting the definition of methodologies and processes allowing the standard's three areas to be complied with:

    - Classification and measurement;

    - Impairment; and

    - Hedge accounting.

    Corporate guidelines for the harmonisation of concepts across all the Group entities were also issued.

- A quantitative impact study for the preliminary analysis of the potential impacts on impairment and capital ratios, deriving from the adoption of IFRS 9 (to replace IAS 39 starting 1 January 2018), promoted by the EBA was organised in the first half.

2016 was the second year under the full direct supervision of the ECB. A continuous need to adapt and maintain a platform of understanding with the new supervisor is a task which consumes a lot of resources, particularly in control areas.

The new supervisory framework, in conjunction with a difficult macroeconomic context for the development of banking activity and continuation of the extensive revision of regulatory support, explains why 2016 was also a particularly difficult year for the sector:

- The Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports were produced in the first four months of 2016. These exercises are particularly important for credit institutions supervised by the ECB, as they are subject to a specific assessment in scope of the SREP – as a transversal supervision methodology structured around: (i) an analysis of institutions' business models, (ii) an assessment of internal governance and implementation of controls, (iii) assessment of capital risks and adequacy of capital levels for mitigation purposes, and (iv) assessment of risks to institutions' liquidity levels and the adequacy of liquidity sources to mitigate them.

- A new transversal stress test exercise was carried out in the first half of 2016. The exercise, promoted by the EBA, included 53 banking groups operating in the European Economic Zone, 39 of which under the direct supervision of the ECB. In spite of not having been included on this panel, the Group was be subject to a similar ECB exercise for the remaining banks under its supervision. The results of this exercise are reflected in the SREP.

- Starting 1 January 2016, the minimum liquidity standard pertaining to the CRR/CRD IV in the form of the LCR *(*liquidity coverage ratio), increased by ten percentage points over the level established on the occasion of its introduction on 1 October 2015, comprising a minimum requirement of 70 per cent.

- Across the course of 2016 and in conformity with the new supervisor's operating model, to complement the continuous oversight of the institution by a dedicated team comprising members of the ECB and the Bank of Portugal – Joint Supervisory Team (JST) – inspections and thematic reviews were carried out by ECB teams, this time on the management and control system of the banking portfolio interest rate and the internal capital adequacy assessment process (ICAAP).

- Quarterly, to complement the financial and accounting (FINREP) and prudential (COREP) reports, additional information reports referred to by the ECB as "short term exercises", for the purpose of obtaining certain essential data for SREP, were produced.

- In the context of its regulatory revision, the EBA, in articulation with the European Commission, continued to promote QIS (Quantitative Impact Studies) on a European Union level, to estimate the impact of the diverse proposed measures and regulatory revisions, taking specific European characteristics into account.

Credit Risk

Credit risk is associated with the losses and level of uncertainty over a customer's/counterparty's capacity to meet its obligations.

Given the nature of banking activity, credit risk is particularly important, owing to its materiality, notwithstanding its interconnection with the remaining risks.

Internal standards govern the management and control of credit risk which, based on ratings, and exposure levels, define the levels of competence necessary for the decision-making process on credit.

The Credit Risks Division was created at the end of 2016 and operates in the area of the analysis, issue of opinions and decisions on credit operations, in accordance with the credit regulations and the delegation of competence currently in force. It is also responsible for validating separate evaluation processes on credit impairment, monitoring defined credit alerts and ratings on enterprises and economic groups.

Methodology

Risk analysis − the Group has established a system for the identification, assessment and control of risk on its credit portfolio, encompassing all customer segments and active both at the time when the credit is issued and across the lifetime of the operations.

- Upon origination, all credit operations should be economically viable, be of interest to the Issuer, in accordance with its credit policy and affect own funds in compliance with the defined solvency ratio, in light of, namely: *(i)* their purpose and specific conditions of the real operations to be financed, *(ii)* the good standing and business, technical and financial capacity of its proponents and their respective representatives, *(iii)* the history of their relationship with the Group and financial system in general, as well as the global amount of their liabilities to the referred to Group and the financial system.

- The adequacy of the amount and maturity of each operation should be commensurate with its type and purpose and the material conditions of the real underlying operation.

- The conditions of each credit operation, namely as regards guarantees and interest rates, should be fixed on the basis of the level of credit risk involved and the customer's global relationship with the Group, always bearing the institution's credit policy in mind. Real guarantees are normally required for medium/long term operations.

- For companies, municipalities, autonomous regions and financial institutions with a more significant level of exposure, the assessment of credit risk, in addition to being based on internal rating models (when applicable and including both financial and qualitative information), is separately analysed by a team of analysts that produces credit risk analysis reports and which issues an independent opinion on the credit risk involved. This separate analysis includes: (i) consideration of diverse, up-to-date information (forthwith including exposure to the Group and the rest of the banking system, ratings, information on defaults and banking incidents, fiscal liabilities to the social security services, pledges, judicial actions, etc), (ii) assessment of management capacity, (iii) consideration of the proposal's reasonability, (iv) assessment of the repayment capacity of proponents/projects, promoting the respective adjustment to the repayment profile (when the risk is considered manageable), and (v) consideration of risk mitigating factors (guarantees, covenants, etc). The analysis always takes into account the economic group to which the proponent belongs and the analysis team is specialised

- The assessment of corporate credit and project finance risk includes environmental and social aspects

  - The credit risk assessment of project finance includes, in the analysis of each project, a category referring to sustainability and a project's socio-environmental impact, with the aim of analysing the project finance's different intervention domains, based on four essential positioning areas: economic profitability, financial viability, social equity and environmental correctness;

  - The assessment of corporate credit risk is also based on considerations regarding the company's social and economic credibility.

  The Issuer uses the services of an independent technical consultant for the assessment of environmental and social risks. Only when justified in terms of risk does an audit exclusively centre on the social and/or economic considerations of a specific project.

The Group's project finance portfolio is particularly concentrated on projects in the Iberian Peninsula. The safeguarding of a collection of environmental and social obligations is embedded in such countries' legislation and compliance therewith by respective economic agents is mandatory.

- Credit risk assessment in the retail segment is based on the use of statistical risk assessment (PD – probability of default and LGD - loss given default) tools, by a collection of internal regulations which establish objective criteria on lending operations to be complied with and the delegation of competence in accordance with the ratings on customers/operations.

The credit impairment model developed by the Group under IAS 39, enables impairment losses to be measured, in accordance with borrowers' creditworthiness, taking the existing level of collateral into account, based on the allocation of credit to the following macro segments:

- Performing credit, without signs of impairment;

- Performing credit, with signs of impairment;

- Non-performing credit.

These segments may be further split up depending on whether the credit is classified as being "cured" or restructured owing to a customer's financial difficulties.

The risk factors used in the credit impairment model (probabilities of default and loss given default) are revised annually and back-tested with point-in-time adjustments to ensure that they adequately reflect market conditions.

The credit impairment model is used to assess and process the credit portfolio which is subdivided up in conformity with the following approaches:

- Collective impairment analysis – impairment per risk sub-segment is assessed on exposures which are not considered to be separately significant. They include assets with similar risk characteristics (credit segment, type of collateral, payments history, *inter alia*);

- Separate impairment analysis – a separate assessment is made on a quarterly basis for customers with exposures considered to be individually significant. The process involves the Issuer's commercial, and credit recovery areas with the risk management area being ultimately responsible for the procedure and final assessment as a whole.

In terms of the methodology used to assess separate impairment levels, the Issuer follows the guidelines recommended in the "Asset Quality Review" (2014) which were also published in the ECB document: "Draft Guidance to Banks on Non‑Performing Loans", in September 2016, based on the following:

- **Going concern approach** (an active company whose liquidation is not foreseeable) – the debtor will continue to generate operating cash flow that may be used to repay debt to all creditors. The collateral may also be considered to the extent that it does not influence operating cash flow. This is considered to be the most probable approach;

- **Gone concern approach** (a company in liquidation or at risk thereof) – the collateral is called in and the entity no longer has any operating cash flow.

In the context of a separate assessment on the impairment of customers with large exposures, the analysis essentially centres on the following dimensions:

- Compliance with the contractual terms agreed with the Group;

- Assessment of economic-financial situation;

- Prospects for the evolution of the customer's activity;

- Verification of the existence of operations involving overdue credit and interest, with the Group and/or in the financial system;

- Adequacy of guarantees and collateral to offset the amount of the loan;

- Analysis of historic information on the performance and good payment of the customer.

Collective impairment is assessed (IBNR – incurred but not reported), in conformity with the risk factors assessed on credit with similar characteristics for significant exposures on which with no objective signs of impairment have been identified.

As agreed between the Portuguese State and the European Commission, and in order for the Issuer's recapitalisation not to be considered State Aid, an assessment of the Issuer's assets was established as a condition for the purpose. In this context, the Issuer's executive committee decided to undertake an exhaustive revision of the assets portfolio ("**Management Assessment of Asset Value**", "**MAAV**"), with reference to 30 June 2016. Work started on this revision on 5 September 2016 and it was completed on 12 December 2016, and further updated in 2017.

Limits – to improve the flexibility of the process for short term lending to companies and promote the use of rigorous, uniform risk criteria, by different parties, the Group arranges for the allocation of internal credit limits. In parallel and also to improve the flexibility and standardise the risk analysis on these operations, the Group has developed and implemented a model for the definition of short term exposure limits for companies, based on economic-financial and sectorial indicators and ratings and which issues guidelines over the recommended level of short term exposure for each customer. The model permits the use of the same collection of clear and objective rules for the calculation of reference levels, which are only indicative. This model is applied to companies in both the SME and large enterprises segments.

Internal limits for the financial institutions segment have also been approved. The definition of such limits takes into consideration an entity's status in the financial sector and in comparison to its peers, rating, VaR and other relevant elements.

Compliance with limits, credit exposures and counterparty and group risk profiles are regularly overseen by credit risk analysts.

In the area of credit control risk, the credit portfolio is overseen and analysed in terms of its composition and corresponding quality. A monthly report splitting up the portfolio by product, customer segment, sector of activity, geographical area, loan to value (LTV), debt to income ratio and portfolio rating is produced for the said purpose.

The monitoring of the performance of the internally developed risk rating models is also especially important. This monitoring exercise, based on the processing of the information deriving from the use of the referred to models provides an indication of their continued adequacy. The follow-up procedures are performed by a unit which is independent from the modelling area, enabling autonomous guidelines on any needs for the revision of models and information on their mode of use to be produced.

Market Risk

Market risk translates into potentially negative impacts on an institution's results or capital, deriving from unfavourable price movements of portfolio assets.

This is on account of the uncertainty of price fluctuations and market rates, such as the prices of shares and indices or interest or foreign exchange rates and how they correlate to each other.

Market risk exists on instruments such as shares, funds, bonds, spot and forward foreign currency operations, interest rate derivatives, foreign exchange derivatives, shares/indices/baskets, commodities and credit. Exposure to this type of risk is therefore across-the-board to various categories: price, interest rate, foreign exchange rate, volatility and commodities.

There is complete separation between functions involving the execution of market operations and respective risk control, with the Risk Management Division being responsible for measuring, monitoring, controlling and analysing daily market risk reporting, as well as verifying compliance with the respective limits. The reliability of prices and rates, as one of the main guarantors of the quality of the measures and metrics obtained, is also ensured on a daily basis. The second main aspect of change, involving the rotation of positions, is also monitored daily.

Limits

The practice of setting and monitoring diverse limits is extremely important in mitigating market risk. These global limits are submitted to the ALCO committee by the Risk Management Division for discussion and approval. The management rules established for the Group on each portfolio or business unit, include stop loss or loss limits as well as limits on the types of instruments authorised, concentration limits, *et al*. Specific management rules on the foreign exchange risk position of the Group units are also applied.

Market risk hedging operations are decided by portfolio managers or business units, based on risk limits and authorised instruments, in which the Risk Management Division collaborates on assessing the impact of the risk hedges incurred or authorised market risk levels, if deemed advisable under the circumstances.

Market risk limits and stop loss instructions are measured, controlled and reported at least once a day. The procedures, when limits are exceeded, have been perfectly defined.

VaR amounts and limits are calculated on the Group's foreign exchange position and are subject to limits as well as the total open position and open position per currency.

Methodology

Value at Risk (VaR) is a measure of the loss of potential future value that, in normal market conditions, will be the upper limit assuming a certain level of confidence and a specific investment timespan. The market risk management area has, since 2002, used the VaR measure to monitor the Group's market risk based on this measure and, in several cases, complemented by sensitivity limits to changes in risk factors - basis point value (bpv) and duration for interest rates and other sensitivity indicators usually applied to options portfolios (commonly referred to as Greeks). VaR is assessed on all types of market risk (interest rates, shares, exchange rates and volatility), using the historic simulation method, whose confidence levels and timespans are contingent upon the reasons for holding the portfolios. No statistical distribution is therefore assumed in this measurement, in which historic returns are considered for each risk factor with the application of a complete revaluation of the portfolio.

Two alternative market risk metrics continued to be applied in 2016: "Expected Shortfall" (ES) that aims to quantify the potential loss of value in adverse market conditions and the "Three Worst (3W)" that aims to quantify potential portfolio loss under extreme conditions.

The market risk metrics are complemented by assessments of the impact of the valuation of assets and derivatives in the event of the occurrence of extreme scenarios involving fluctuations of risk factors (stress tests).

Market risk measures permit homogenous application considering the correlation between the various risk factors based on a complete portfolio reassessment.

Market risk management calculates and monitors such measures on a daily basis, having designed a comprehensive VaR report, sensitivity analysis, profitability indicators, compliance with limits and stress tests structure for all Group entities whose trading and banking portfolios are exposed to market risk and their balance sheets to currency risk.

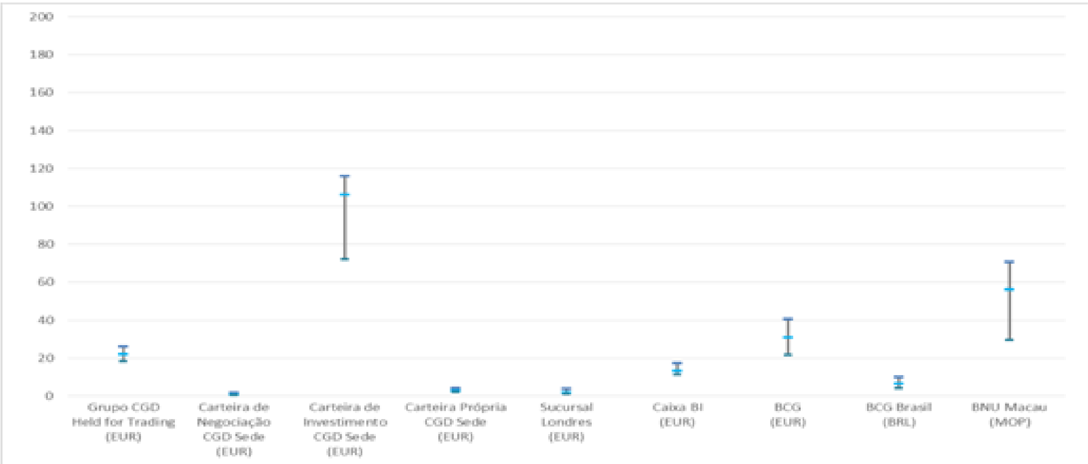
Foreign exchange risk control and assessment are performed separately on a daily level in the case of domestic activity and for each of the branches and subsidiaries and monthly on a consolidated level for the Group as a whole.

The VaR model is continuously put to the test, either through its day-to-day use or theoretical daily back-testing exercises, as well as the real monthly assessment of back-testing values on several portfolios.

The number of exceptions obtained, i.e. the number of times theoretical or real losses exceed VaR, in addition to the additional conditional and unconditional coverage tests enable the method's accuracy to be assessed and any necessary adjustments made.

VaR, in 2016, registered the following minimum, medium and maximum values for the most relevant perimeters, in 2016:

(*million*)



The market risk on the Group's held for trading portfolio remained at levels similar to 2015. The risk on managed portfolios also remained close to the levels noted last year, except for the investment portfolio. There was an increase in market risk on subsidiaries' portfolios, specifically BNU, on account of the increased exposure of its investment portfolio.

Interest Rate Risk in Balance Sheet

This is the risk incurred by a financial institution whenever, during the course of its operations, it contracts for operations whose financial flows are sensitive to interest rate changes. Put in different words it is the risk of the occurrence of a change in the interest rate associated with the mismatching of maturities and revision of interest rates between assets and liabilities held, with a decrease in yield or increase in financial cost.

Methodology

The methodology used by the Group to measure this type of risk comprises an accounting (or short term) and economic (or long term) perspective and uses both simplified interest rate gaps (aggregating all assets and liabilities sensitive to change, in residual interest rate bands, thus obtaining the corresponding mismatches) and effective duration (estimate of the percentage change in the price of the financial instruments for a change in interest rates of 100 bps) and robust simulation technique models including earnings at risk metrics (impact of adverse interest rate changes on the interest margin) and the economic value of equity at risk (impact of adverse interest rate changes on the economic value of equity).

The management and control of balance sheet interest rate risk and of the banking portfolio are based on a set of guidelines that include the setting of limits for the variables considered significant on a level of exposure to this type of risk. The objective of compliance with these guidelines is to ensure that the Issuer, at any point of time, has the means of managing the return/risk trade-off in terms of balance sheet management and that it is simultaneously in a position to set the most adequate exposure level and control the results of the different risk policies and positions assumed.

The collection of supporting information for measuring and monitoring balance sheet and banking portfolio interest rate is considered monthly by the executive committee and at ALCO meetings.

Information on the Group's balance sheet interest rate repricing gap, at the end of 2016, is set out in the following table.

Interest rate gap at 31.12.2016*

	<= 1W	> 1W <= 1M	>1M <= 3M	> 3M <= 6M	> 6M <= 12M	> 12M <= 3Y	>3Y
				(million euros)			
Total assets	6,640	17,433	20,609	19,272	7,638	2,492	7,640
Total liabilities and capital.................	15,722	5,817	12,238	14,623	8,827	13,533	14,292
Total interest rate derivatives..........	3,872	-197	-933	-500	-721	870	-2,616
Period gap.............	-5,210	11,419	7,439	4,149	-1,909	-10,171	-9,267
Accumulated gap ...	-5,210	6,209	13,648	17,797	15,888	5,717	-3,550

* Perimeter: Prudential banking (excluding Timor and Zhuhai branches).

The amount of the exposure to interest rate risk, in December 2016, continued to comply globally with the respective risk appetite level established in the Group's risk appetite statement, enabling a controlled interest rate risk level aligned with the focus on retail/commercial banking to be achieved. The accumulated 12 months re-pricing gap metric of €15,888 million shows sensitivity levels of the interest margin and adverse changes in controlled interest rates in comparison to their current levels.

In the context of its regulatory interest rate risk reporting commitments, the Group sends detailed information on its level of exposure to interest rate risk in its banking portfolio in addition to the results of the internal risk assessment measurement models, as established in BdP *Instruction* 19/2005, every six months to the Bank of Portugal.

The ECB's supervisory model, in the framework of the Single Supervisory Mechanism – SSM also continued to include quarterly "short term exercises" for the collection of data designed to supply complementary information for the SREP. The supervisor's requirements for banking portfolio interest rate risk include:

(i) separation between assets, liabilities and off-balance sheet items in residual interest rate revision periods; and

(ii) sensitivity analyses on interest margins and the economic value of equity to parallel shocks of ±1 bps and ± 200 bps on interest rates.

Liquidity Risk

This involves the possibility of the occurrence of gaps or mismatches between payments and receipts of monetary flows, creating an incapacity to meet commitments, i.e. in this kind of situation an institution's reserves and cash assets may be insufficient to meet its obligations as and when they occur.

Liquidity risk in terms of the banking business can occur in the event of:

- Difficulties in resource-taking to finance assets, normally leading to higher costs in securing such finance but which may also imply a restriction on asset growth;

- Difficulties in promptly meeting obligations to third parties caused by significant mismatches between residual periods on assets and liabilities.

Methodology

The origin of liquidity risk management in the Issuer lies in an analysis of the periods to maturity of different balance sheet assets and liabilities. The volumes of cash inflows and cash outflows are set out in time bands on the basis of their residual period of occurrence with the respective liquidity gaps thereafter being calculated both for the period and accumulated.

The structural liquidity concept is used for the analysis and definition of exposure limits, aiming to incorporate the historic performance of depositors on a level of the management of their current, term and savings accounts, whose balances are distributed among the different time bands considered in accordance with in-house studies and models.

Liquidity gaps are calculated monthly and are subject to compliance with two exposure limits defined by the ALCO committee.

The Group's structural liquidity gap values, at the end of 2016, were as follows:

Liquidity gap at 31.12.2016*

	<= 1M	> 1M <= 3M	> 3M <= 6M	> 6M <= 12M	> 12M <= 3Y	> 3Y <= 5Y	> 5Y <= 10Y	>10Y
				(million euros)				
Total assets .	12602	2926	4961	4529	12531	10937	11746	23953
Total liabilities and capital	8198	5771	5566	10849	20626	10017	23857	167
Total derivatives	76	-3	-35	-22	7	-1	71	0
Period gap...	4480	-2848	-640	-6341	-8088	919	-12040	23787
Accumulated gap	4480	1632	992	-5349	-13437	-12519	-24559	-773

* Perimeter: Prudential banking (excluding Timor and Zhuhai branches).

The 1 and 12 months accumulated structural liquidity gaps, in December 2016, for a positive €4,480 million and a negative €5,349 million, respectively, translate into liquidity ratios for the respective periods that show the Issuer's highly comfortable position in terms of liquidity.

The management of liquidity risk also incorporates stress tests in articulation with the existing liquidity contingency plan in conformity with the principles and recommendations announced by the BCBS – Basel Committee on Banking Supervision and CEBS – Committee of European Banking Supervisors, currently EBA – European Banking Authority.

The internally developed methodology for assessing the Group's resilience to eventual liquidity difficulties encompasses the measuring and monitoring of the "survival period" (time remaining up until the occurrence of liquidity difficulties if corrective measures have not been implemented), based on three stress scenarios on a level of funding markets. A fourth scenario – baseline scenario – is also considered, on the assumption that the Group will perform its activity according to its budget and consequent funding plan.

The current model also includes a set of minimum values for survival periods to be complied with for the survival periods assessed in respect of the referred to scenarios. Non-compliance with any of the existing limits presupposes the implementation of the contingency measures provided for in the Group's liquidity contingency plan, in accordance with the priority levels therein defined regarding the use of different financing instruments.

Starting in the first quarter of 2016, the Group expanded the set of mechanisms and metrics for measuring and monitoring liquidity risk with the objective of consolidating the Group's management framework, with the ALCO committee's approval of guidelines for the LCR's high quality liquid assets buffer, namely on a level of the definition of diversification objectives for the buffer based on the amount of investment per issuing entity or guarantor, by issuance and geography.

2016 was also particularly demanding in terms of regulatory undertakings on reporting liquidity risk, as, although the ECB only started to supervise the Issuer directly in November 2014 (in the context of the Single Supervisory Mechanism), the reporting requirements established by the supervisor still need to be stabilised.

The ECB's liquidity radar continued to operate the three distinct levels of scrutiny, frequency and complexity used in 2015: although having added another six risk assessment dimensions:

- Liquidity Risk Monitoring Tool (weekly) – a liquidity risk monitoring methodology developed by the ECB, which includes the calculation of i) liquidity ratios, ii) survival periods, and iii) liquidity gaps;

- Additional Liquidity Monitoring Metrics (monthly) – a set of additional liquidity monitoring measures in accordance with sub-paragraph b) of number 3 of article 415 of Regulation (EU) 575/2013, that includes quantitative data on *i)* concentration of funding by counterparty and type of product, *ii)* funding cost, *iii)* renewal of funding, and *iv)* concentration of counterbalancing capacity (net assets) by issuing entity/counterparty;

- Short Term Exercises (quarterly) – for the supply of essential data for ECB's SREP that, in terms of liquidity includes information on *i)* the LCR's prudential liquidity ratios and the NSFR (net stable funding ratio) and *ii)* the splitting up of assets, liabilities and net assets ("counterbalancing capacity") by periods to maturity of capital and interest;

- "Downgrade Exercise of the Portuguese Sovereign" (quarterly) – an ECB monitoring exercise on DBRS's 1 notch downgrade of Portuguese public debt instruments on *i)* the collateral available for Eurosystem financing, *ii)* funding outflows and *iii)* P&L and reserves, and the additional contagion effects on a level of Portuguese-related assets and rating on the Group and debt instruments issued by any Group entity following the respective 1 notch downgrade of its credit standing by the four rating agencies accepted by the ECB;

- "Internal Liquidity Adequacy Assessment Process" (annual) - a self-assessment exercise on the adequacy of credit institutions' liquidity levels that, in compliance with article 86 of Directive 2013/36/EU, should have robust strategies, policies, processes and information systems i) for the identification, measurement, management and monitoring of liquidity risk across appropriate time periods, and ii) for the management and monitoring of financing positions in order to guarantee adequate liquidity buffer levels and an adequate financing structure;

- "Liquidity Exercise" (annual) - daily monitoring model (five consecutive days) developed by the ECB for temporary use in real crisis situations, centring on the most relevant liquidity data in such situations: (i) changes in customer deposits stock, wholesale financing, financing obtained from the ECB and net assets, (ii) ten main counterparties of customer deposits and repo operations, and (iii) ten main intra Group financing transactions.

Adding to the supervisor's proximity oversight of banks' liquidity situations the LCR (liquidity coverage ratio) – as the minimum liquidity standard included in the CRR/CRD IV regulatory framework – came into force for its first full year, with a ten percentage points increase over the level established on the occasion of its introduction on 1 October 2015, corresponding to a minimum requirement of 70 per cent., and with the following transitional disposition:

- 60 per cent. of the liquidity coverage requirement starting from 1 October 2015;

- 70 per cent. from 1 January 2016;

- 80 per cent. from 1 January 2017; and

- 100 per cent. from 1 January 2018.

the Group's comfortable LCR ratio of 181.1 per cent. at 31 December 2016, was significantly higher than the established minimums, confirming its excellent liquidity position.

The NSFR also confirmed the Group's excellent liquidity position, with a comfortable 135.0 per cent. at 31 December 2016, although the standard aiming to promote the existence of a sustainable maturities structure for assets, liabilities and off-balance sheet items, particularly focusing on preventing the excessive use of short term wholesale funding, only comes into force on 1 January 2018, with a minimum requirement of 100 per cent.

Also in the context of its regulatory liquidity risk reporting commitments, the Group continued to comply with the conditions set out in Bank of Portugal *Instruction* 13/2009, which includes a detailed, permanent collection of information on credit institutions' liquidity levels, including their forecast treasury plans over a one year timeframe.

Notwithstanding the problems noted in the money and capital markets since 2008, 2016 saw a growing trend towards stabilising confidence levels in the financial system, already felt in 2013, providing the Group with a more favourable financing environment in terms of its resource-taking policy. Over the course of the year as a whole, the Group endeavoured to guarantee a sustainable financing structure for its activity, based on the characteristics of the liquidity and period to maturity of its off-balance-sheet assets and exposures.

Operational risk

Operational risk comprises the risk of losses resulting from inadequacies or failures of processes, persons and information systems or deriving from external events, including legal risks.

In terms of the calculation of own funds requirements to cover operational risk, the Group, on a consolidated basis, has adopted the standard method, which is also used by the Issuer, Caixa - Banco de Investimento, S.A., Caixa Leasing e Factoring, Banco Caixa Geral (Spain) and Mercantile Bank (South Africa) on a separate basis.

The application of the standard method on a consolidated basis, at 31 December 2016, requires own funds of €252 million to cover operational risk.

Methodology

Operational risk management in the Group uses an end-to-end methodology, based on a collection of guidelines, principles and regulations recognised as good practice on a national and international level.

This methodology, incorporating a series of components, has been implemented in the Issuer and its respective branches and subsidiaries:

- The definition and oversight of tolerance and risk appetite limits;
- The decentralised collection of operational risk events, losses and recoveries, strengthened and backed by control procedures;
- Self-assessment of potential operational risks and respective controls;
- Definition and oversight of key risk indicators;
- Disclosure of information using an internal reporting system including regular committee meetings and disclosure of reports for the diverse structural bodies;
- Promotion and oversight of the implementation of action plans as a corollary to the remaining methodological components.

On an organisational level, operational risk management in the Issuer is performed by different structures/functions with specific responsibilities in this process, whose respective coordination is the responsibility of an area exclusively specialising in operational risk management as part of the Risk Management Division.

In addition to the referred to operational risk management methodology, in 2016, the Group completed the implementation of its business management continuity system, in conformity with the respective international benchmark standard – *ISO 22301:2012 Business Continuity Management System* – guaranteeing a better operation of business continuity activity based on a commitment with top management to contribute to the continuation of such improvement. The Group has accordingly further consolidated its resilience in strengthening its capacity to respond to potential dangers to its business.

To guarantee compliance with Group entities' regulatory obligations, the Group continues to oversee and develop support/performance projects in the framework of good practice issued by the Bank of Portugal (circular letter 75/2010) in its structures. In 2016, it concentrated on providing personal support to its banks in Cape Verde (BCA and Banco Interatlântico) and providing distance support to the other entities.

In 2017, the general business continuity committee (CGCN) will be the top management structure. It will meet periodically for business continuity management system oversight purposes and works on implementation/support works for Group entities, considering the possibility of visits to BCI and Banco Interatlântico (Cape Verde).

Objectives for 2017

In order to strengthen the governance framework of the risk management function ("**RMF**"), the Group will be implementing a set of corporate standards as practical guidelines for RMF operations, namely concepts, principles and procedures for the control of the communication of each of the risks.

The framework will include the following corporate standards:

- Global risk management policy;
- Credit risk management policy;
- Operational risk management policy;
- Interest rate risk management policy;
- Foreign exchange risk management policy;
- Market risk management policy;
- Liquidity risk management policy;
- Real estate risk management policy; and
- Model risk management policy.

To ensure consistency between the Group's global risk management strategy and locally defined strategies, in addition to the alignment of the business objectives in respect thereof, the application of the Group's risk appetite statement (RAS) will be expanded to all Group units.

Each Group unit should have a defined and approved risk appetite statement to include the risk indicators and limits deriving from the Group's global strategy.

As part of the strategic objectives for managing the reinvigoration of domestic business, based on a risk control infrastructure in line with best international practice, the Issuer will encourage additional focus on the development of internal credit risk assessment models based on the continued strengthening of the return-risk binomial.

2017 will essentially be a year of preparation for the coming regulatory structural changes: IFRS 9, MREL, *Fundamental Review of the Trading Book* (revision of the calculation for own funds requirements), *Principles for Effective Risk Data Aggregation and Risk Reporting* (a set of principles to promote the rigorousness and transparency of risk information, respective aggregation techniques and analysis reports), *Interest Rate Risk in the Banking Book* – revision of Pillar II (Assessment Process of the Supervisory Authority requirements) and Pillar III (Market Discipline), *inter alia*.

Steps should therefore be taken, herein, to strengthen and consolidate the whole of the risk management structure, ranging from the governance model, to the operationalisation and dissemination of risk appetite at all levels of the institution. The strengthening of the corporate function will, therefore, continue to be a priority.

The year will also involve the Group's preparation for the transversal stress test exercise of the EBA in 2018, based on an infrastructure dedicated to this kind of exercise, which will help strengthen the institution's balance sheet and capital positions. Steps will also be taken to provide for the recommendations resulting from the occurrence of various inspections and thematic reviews across 2016, namely in respect of the banking portfolio interest rate risk control system and the self-assessment process on internal capital, making progress on the matters still unresolved from the preceding year. Globally, improvements will be made to ICAAP and ILAAP in line with the latest recommendations of the ECB's SREP.

Evolution of the whole of the risk rating process in operational terms, with the prospect of the total integration thereof on the computerised workplace platform is also expected to occur.

The Issuer will produce a new impact study on the adoption of IFRS 9, promoted by the EBA. In parallel, the ECB, has launched a "thematic review" on this issue with the objective of diagnosing the standard's implementation process and the assessment of the respective methodologies under consideration.

Action plans with the objective of implementing IFRS 9 by the end of third quarter 2017 are being finalised in the Group.

The risk management function, across 2017, will continue to be involved in relevant internal informational projects in the sphere of the adoption/implementation of the "Principles for Effective Risk Data Aggregation and Reporting", as recommended by the Basel Committee on Banking Supervision (BCBS 239).

TAXATION

Prospective purchasers of Notes are advised to consult their tax advisers as to the tax consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of receipts of interest and sale or redemption of Notes.

The following descriptions are general summaries of certain taxation matters based on applicable law and practice currently in effect in the relevant jurisdictions. Nothing in this section constitutes tax, legal or financial advice, and the summaries contained herein are of a general nature and do not cover all aspects of taxation in the relevant jurisdictions that may be relevant to any particular holder of Notes. Prospective investors in the Notes should consult their professional advisers on the tax implications for them of an investment in the Notes.

Portuguese Taxation

General

The economic advantages deriving from interest, amortisation or reimbursement premiums and other types of remuneration arising from the Notes issued by private entities are qualified as investment income for Portuguese tax purposes and is considered to be Portuguese sourced income and generally subject to taxation in Portugal.

General Tax Regime Applicable to Debt and Equity Securities

Resident

Investment income (including dividends and interest) obtained on Notes by a Portuguese resident individual are subject to individual income tax. If the payment of 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 for aggregation to his taxable income, subject to tax at the current progressive rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding €80,000 up to €250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income up to €20,261.00; (ii) 0.88 per cent. for taxable income exceeding €20,261.00 up to €40,522.00; (iii) 2.75 per cent. for taxable income exceeding €40,522.00 up to €80,640.00; (iv) 3.21 per cent. for taxable income exceeding €80,640.00. Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Capital gains obtained by Portuguese resident individuals on the repayment or transfer of Notes are taxed at a special tax rate of 28 per cent. levied on the excess of such gains (and gains on other securities) over the losses on securities, unless the individual elects for aggregation of that same balance to his taxable income, subject to tax at the current progressive rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding €80,000 up to €50,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income up to €20,261.00; (ii) 0.88 per cent. for taxable income exceeding €20,261.00 up to €40,522.00; (iii) 2.75 per cent. for taxable income exceeding €40,522.00 up to €80,640.00; (iv) 3.21 per cent. for taxable income exceeding €80,640.00. The amount of accrued interest on the date of the transfer qualifies as interest, rather than capital gains, for tax purposes.

Investment income derived from Notes and capital gains obtained with the transfer of Notes by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to corporate income tax at a 21 per cent. rate or at a 17 per cent. rate on the first

€15,000 in the case of small or small and medium-sized enterprises, to which may be added a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of €1,500,000 and up to €7,500,000, 5 per cent. on taxable profits in excess of €7,500,000 and up to €35,000,000 and 7 per cent. on taxable profits in excess of €35,000,000. As general rule, withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due. Interest payments to financial institutions subject to tax in Portugal, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and collective investment undertakings incorporated and operating under the laws in Portugal and some other exempt entities are not subject to withholding tax.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence, the tax rates applicable to such beneficial owner(s) will apply.

Non-resident

Without prejudice to the Debt Securities Taxation Act further described below, the general tax regime on debt and equity securities applicable to non-resident entities is the following:

Investment income obtained by non-resident individuals without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 28 per cent. which is the final tax on that income. Investment income obtained by non-resident legal persons without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent. which is the final tax on that income.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. applies in the case of investment income payments to individuals or companies domiciled in a "low tax jurisdictions" list approved by Ministerial Order (*Portaria*) no. 150/2004 of 13 February, as amended, by Ministerial Order (*Portaria*) no. 292/2011 of 8 November 2011 and Ministerial Order (*Portaria*) no. 345-A/2016, of 30 December 2016.

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Offering Circular, the withholding tax rate may be reduced to 15, 12, 10 or 5 per cent., depending on the applicable treaty and **provided that** the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

Capital gains obtained on the transfer of Notes by non-resident individuals without a permanent establishment in Portugal to which gains are attributable 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 Ministerial Order (*Portaria*) no. 150/2004 of 13 February, as amended ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"), by Ministerial Order (*Portaria*) no. 292/2011 of 8 November 2011 and Ministerial Order (*Portaria*) no. 345-A/2016, of 30 December 2016. Capital gains obtained by individuals that are not entitled to said exemption will be subject to taxation at a 28 per cent. flat rate. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese corporate income tax, but the applicable rules should be confirmed on a case by case basis. The amount of interest or other investment income accrued on the date of the transfer does not qualify as capital gains for tax purposes.

Capital gains obtained on the transfer of Notes by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the non-resident entity is more than 25 per cent. directly or indirectly held by Portuguese resident entities or the beneficial owner is resident in a country, territory or region subject to a clearly more favourable tax regime included in the "low tax jurisdictions" list approved by Ministerial Order (Portaria) no. 150/2004 of 13 February, as amended ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"), by Ministerial Order (*Portaria*) no. 292/2011 of 8 November 2011 and Ministerial Order (*Portaria*) no. 345-A/2016, of 30 December 2016. If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese corporate income tax, but the applicable rules should be confirmed on a case by case basis.

Debt Securities Taxation Act

Resident

Investment income obtained on Notes by a Portuguese resident individual is subject to individual income tax. If the payment of investment income is made available to Portuguese resident individuals, withholding tax applies at a rate of 28 per cent., which is the final tax on that income unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding €80,000 up to €250,000; and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income up to €20,261.00; (ii) 0.88 per cent. for taxable income exceeding €20,261.00 up to €40,522.00; (iii) 2.75 per cent. for taxable income exceeding €40,522.00 up to €80,640.00; (iv) 3.21 per cent. for taxable income exceeding €80,640.00. In this case, the tax withheld will be creditable against the recipient's final tax liability. The relevant tax shall be withheld by the relevant direct registering entity.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Capital gains obtained by Portuguese resident individuals on the transfer of Notes are taxed at a special tax rate of 28 per cent. levied on the positive difference between such gains and gains on other securities and losses on securities unless the individual elects for aggregation to his taxable income, subject to tax at the current progressive rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding €80,000 up to €250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge will also be due for the tax year of 2017 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income up to €20,261.00; (ii) 0.88 per cent. for taxable income exceeding €20,261.00 up to €40,522.00; (iii) 2.75 per cent. for taxable income exceeding €40,522.00 up to €80,640.00; (iv) 3.21 per cent. for taxable income exceeding €80,640.00. Interest accrued on the date of the transfer qualifies as interest, rather than as capital gains, for tax purposes.

Investment income derived from Notes and capital gains obtained with the transfer of Notes by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to Corporate Income Tax at a 21 per cent. tax rate or at a 17 per cent. tax rate on the first €15,000 in the case of small or small and medium-sized enterprises, to which may be added a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of €1,500,000 and up to €7,500,000, 5 per cent. on taxable profits in excess of €7,500,000 and up to €35,000,000 and 7 per cent. on taxable profits in excess of €35,000,000.

As general rule, withholding tax at a rate of 25 per cent. applies on investment income, which is deemed a payment on account of the final tax due. The relevant tax shall be withheld by the relevant direct registering entity. Payments to financial institutions subject to tax in Portugal, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and collective investment undertakings incorporated under the laws in Portugal and some exempt entities are not subject to Portuguese withholding tax.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Non-resident

Pursuant to the Special Tax Regime for Debt Securities, approved by the Debt Securities Taxation Act, investment income paid on, as well as capital gains derived from a repayment, sale or other disposition of the Notes, to non-Portuguese resident beneficial owners will be exempt from Portuguese income tax provided the debt securities are integrated in (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above **provided that**, in this last case, the Portuguese Government authorises the application of the Debt Securities Taxation Act, and the beneficiaries are:

(i) central banks or governmental agencies; or

(ii) international bodies recognised by the Portuguese State; or

(iii) entities resident in countries or jurisdictions 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 the Portuguese territory to which the relevant income is attributable and which are not domiciled in a blacklisted jurisdiction as set out in the Ministerial Order no. 150/2004, as amended.

For purposes of application at source of this tax exemption regime, the Debt Securities Taxation Act requires completion of certain procedures and the provision of certain information. Under these procedures (which are aimed at verifying the non-resident status of the Holder), the beneficial owner is required to hold the Notes through an account with one of the following entities:

(i) a direct registered entity, which is the entity with which the debt securities accounts that are integrated in the centralised system are opened;

(ii) an indirect registered entity, which, although not assuming the role of the "direct registered entities", is a client of the latter; or

(iii) an international clearing system, which is an entity that proceeds, in the international market, to clear, settle or transfer securities which are integrated in centralised systems or in their own registration systems.

The special regime approved by the Debt Securities Taxation Act sets out the detailed rules and procedures to be followed on the proof of non residence by the beneficial owners of the Instruments to which it applies.

Under these rules, the direct register entity is required to obtain and retain 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 proof of non-residence should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest and, in the case of domestically cleared Notes, prior to the transfer of Notes, as the case may be.

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 as at the date of this Offering Circular.

(a) ***Domestically Cleared Notes***

The beneficial owner of Notes must provide proof of non residence in Portuguese territory substantially in the terms set forth below:

(i) If a holder of Notes is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese State, a declaration of tax residence issued by the holder of Notes, duly signed and authenticated or proof pursuant to the terms of paragraph (iv) below;

(ii) If the beneficial owner of Notes is a credit institution, a financial company, 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 and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Notes and its domicile; or (C) proof of non residence, pursuant to the terms of paragraph (iv) below;

(iii) If the beneficial owner of Notes is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force, 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 and the law of incorporation; or (B) proof of non residence pursuant to the terms of paragraph (iv) below;

(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; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable. There are rules on the authenticity and validity of the documents, in particular that the holder of Notes 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 three year period starting on the date such document is issued.

In cases referred to in paragraphs (i), (ii) and (iii) above, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption. The holder of Notes must inform the register entity immediately of any change that may preclude the tax exemption from applying.

(b) ***Internationally Cleared Notes***

If the Notes are registered in an account with an international clearing system, prior to the relevant date for payment of any interest, the entity managing such system is to provide to the direct register entity or its representative the identification and number of securities, as well as the income and, when applicable, the tax withheld, itemised by type of beneficial owner, as follows:

(i) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are not exempt from tax and are subject to withholding tax;

(ii) entities domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the list approved by Ministerial Order no. 150/2004, of 13 February which are not exempt from tax and are subject to withholding tax;

(iii) Portuguese resident entities or permanent establishments of non resident entities to which the income is attributable which are exempt from tax and are not subject to withholding tax;

(iv) other non-Portuguese resident entities.

(v) In addition, the international clearing system managing entity is to provide to the direct register entity, in relation to each income payment, at least the following information concerning each of the beneficiaries mentioned in (i), (ii) and (iii) above: name and address, tax identification number, if applicable, identification of the securities held and amount thereof and amount of income.

No Portuguese exemption shall apply at source under the special regime approved by Debt Securities Taxation Act if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the regime approved by Debt Securities Taxation Act. The refund claim is to be submitted to the direct register entity of the Notes within 6 months from the date the withholding took place. A special form for these purposes is yet to be approved.

The refund of withholding tax after the above 6 months period is to be claimed to the Portuguese tax authorities through an official form available at http://www.portaldasfinancas.gov.pt, within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months, after which interest is due.

FATCA

The Issuer and other non-US financial institutions through which payments on the Notes are made may be required to withhold US tax at a rate of 30 per cent. or at a rate resulting from multiplying 30 per cent. by the positive "passthrough percentage" (as defined in US Foreign Account Tax Compliance Act ("**FATCA**")) of the Issuer or of the other non-US financial institutions through which payments on the Notes are made, to the payments made after 31 December 2014 in respect of (i) any Notes issued after 18 March 2012 and (ii) any Notes which are treated as equity for US federal tax purposes, whenever issued, pursuant to the FATCA.

This withholding tax may be triggered if (i) the Issuer is a foreign financial institution ("**FFI**") (as defined in FATCA) which enters into and complies with an agreement with the US Internal Revenue Service ("**IRS**") to provide certain information on its account holders (a term which includes the holders of its debt or equity interests that are not regularly traded on an established securities market) (making the Issuer a participating FFI), and (ii) (a) an investor does not provide information sufficient for the participating FFI to determine whether the investor is a US person or should otherwise be treated as holding a "United States Account" of the Issuer, or (b) any FFI through which payment on such Notes is made is not a participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear and additional legislation needs to be in force and published to complete the implementation process.

If an amount in respect of US withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with these rules or as a result of the presence in the payment chain of a non-participating FFI, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less interest or principal than expected. Holders of Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

Portugal has recently implemented, through Law 82-B/2014, of 31 December, the legal framework based on reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. In such Law, it is also foreseen that additional legislation regarding certain procedures and rules in connection with FATCA will be created in Portugal.

In addition, Portugal has signed the Intergovernmental Agreement with the US on 6 August 2015. Considering that additional legislation regarding certain procedures and rules in connection with FATCA has to be approved in Portugal, the above description of the withholding and reporting obligations of the Issuer might differ slightly, namely in what concerns the withholding tax of payments made to non FFI Notes holders.

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

The Proposed Financial Transaction Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's 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 Commission's Proposal has very broad scope and could, if introduced apply to certain dealings in financial instruments (including secondary market transactions) in certain circumstances.

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

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate.

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

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a Subscription Agreement dated 28 March 2017 (the "**Subscription Agreement**") between Caixa Geral de Depósitos, S.A. as Issuer and Barclays Bank PLC, Caixa – Banco de Investimento, S.A., Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc as joint lead managers (together, the "**Managers**"), the Issuer has agreed to issue to the Managers and the Managers have jointly and severally agreed to purchase or find purchasers for the Notes. The Issuer has, pursuant to the terms of the Subscription Agreement, agreed to pay the Managers certain commissions and to reimburse certain of their expenses in connection with their appointment as Managers, and has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes.

United Kingdom

Each of the Managers 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, as amended (the "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, 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 any Notes in, from or otherwise involving the United Kingdom.

United States

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Managers has represented and agreed that it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will send to each manager to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Portugal

Each of the Managers has represented, warranted and agreed with the Issuer that, regarding any offer or sale of Notes by it in Portugal or to individuals or entities resident in Portugal or having a permanent establishment located in the Portuguese territory (or to whom Portuguese laws and regulations applicable to the placement of financial instruments otherwise apply), it will comply with all laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code (*Código dos Valores Mobiliários*), any regulations issued by the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) ("**CMVM**") and Commission Regulation (EC) No. 809/2004 (as amended from time to time) implementing the Prospectus Directive, 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 Notes in circumstances which could qualify as a public offer (*oferta* *pública*) of securities pursuant to the Portuguese Securities Code and other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portugal, as the case may be; (ii) all offers, sales and distributions by it of the Notes have been and will only be made in Portugal in circumstances that, pursuant to the Portuguese Securities Code, qualify as a private placement of Notes only (*oferta particular*); (iii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Offering Circular or any other offering material relating to the Notes to the public (or to persons or entities to whom Portuguese laws and regulations on the placement of complex financial products otherwise applies) in Portugal. Furthermore, (a) if the Notes are subject to a private placement addressed exclusively to qualified investors as defined, from time to time, in the relevant provisions of the Portuguese Securities Code (*investidores qualificados*), such private placement will be considered as a private placement of securities pursuant to the Portuguese Securities Code; (b) private placements addressed by companies open to public investment (*sociedades abertas*) or by issuers of securities listed on a regulated market shall be notified to the CMVM during the 10 business days following the issue date for statistical purposes.

Spain

The offering of Notes has not been registered with the Comisión Nacional del Mercado de Valores (the "**CNMV**"). Accordingly, each of the Managers has represented, warranted and agreed that the Notes may not be offered in Spain by any means, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 35 of the consolidated text of the Securities Market Law approved by Royal Legislative Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005, of 4 November (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*) both as amended from time to time.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, each of the Managers has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or any copy of the Offering Circular or any other document relating to the Notes in the Republic of Italy ("**Italy**") except:

(a) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Consolidated Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the "**CONSOB Regulation**"), all as amended; or

(b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under the Consolidated Financial Services Act or the CONSOB Regulation.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 16190 of 29 October 2007, all as amended;

(ii) in compliance with Article 129 of the Banking Act as amended and the implementing guidelines of the Bank of Italy; and

in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

General

No action has been or will be taken in any jurisdiction by any Manager or the Issuer that would or is intended to permit a public offering of the Notes, or possession or distribution of any offering documents or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each of the Managers 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 Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any Manager shall have any responsibility therefor.

The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the PI Rules, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page vii of this Offering Circular for further information.

GENERAL INFORMATION

1. **Approval, listing and admission to trading**

The Luxembourg Stock Exchange has approved this Offering Circular and application has been made to the Luxembourg Stock Exchange for Notes to be admitted to the Official List and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange. The Euro MTF Market is not a regulated market for the purposes of MiFID.

2. **Authorisation**

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Board of Directors passed on 10 March 2017.

3. **Documents available**

For so long as Notes are outstanding, the following documents will be obtainable in Luxembourg, free of charge, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the office of Paying Agent and Agent Bank:

3.1. the memorandum and articles of association of the Issuer;

3.2. this Offering Circular and any amendment or supplement hereto (if any, to the extent published after the date hereof);

3.3. the Instrument (which constitutes the Notes); and

3.4. the 2015 AR and the 2016 Financial Statements.

4. **Clearing systems**

The Notes have been accepted for settlement and clearing through the CVM, managed and operated by Interbolsa through direct or indirect accounts with Euroclear and Clearstream. The ISIN of the Notes is PTCGDJOM0022 and the Common Code is 158951185. The address of Interbolsa is Avenida da Boavista, 3433 4100-138 Porto, Portugal.

5. **Material change**

Save as disclosed in the 2016 unaudited consolidated and non-consolidated financial statements incorporated by reference herein or as otherwise disclosed in this Offering Circular, since 31 December 2015 there has been no material adverse change in the prospects of the Issuer and, since 31 December 2015, there has been no significant change in the financial or trading position of the Issuer or the Group.

6. **Litigation**

Neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Offering Circular which may have, or have in such period had, a significant effect on the financial position or profitability of the Issuer or the Group.

7. **Independent auditors**

Deloitte & Associados, SROC S.A. (which is a member of the Portuguese Institute of Statutory Auditors – *Ordem dos Revisores Oficiais de Contas*), registered with the CMVM with registration number 20161389, with registered office at Av. Engenheiro Duarte Pacheco, no. 7, 1070-100, Lisbon, has audited the accounts of the Issuer for the financial year ended 31 December 2015 and will audit the accounts of the Issuer for the financial year ended 31 December 2016, which accounts will be published on or about 30 April 2017.

8. **Listing Agent**

Banque Internationale à Luxembourg is acting solely in its capacity as listing agent for the Issuer in relation to the listing of the Notes on the Official List and is not itself seeking admission of the Notes to the Official List of the Luxembourg Stock Exchange or to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

9. **Managers transacting with the Group**

In the ordinary course of their business activities, the Managers 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 Managers 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 Managers 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 Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers 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.

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