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I. FRAMEWORK

The Portuguese covered bond legislation[1] transposing the Covered Bond Directive[2] (the "*Regime Jurídico de Obrigações Cobertas*" or "RJOC") came into effect on the 1st of July 2022, under which covered bonds are now designated as "obrigações cobertas". The RJOC incorporates transitory provisions whereby the former Portuguese covered bond primary legislation[3] will continue to apply to mortgages and public sector covered bonds issued until the 8th of July 2022, formerly known as "*obrigações hipotecárias*" ("OH") and "*obrigações sobre o sector público*" ("OSP"), respectively, until each of the relevant maturities[4]. Notwithstanding, they can be designated as "*obrigações cobertas*", as and when their respective programmes are adjusted and approved in accordance with the RJOC.

These transitory provisions also apply to tap issues of OHs or OSPs issued until the 8th July 2022 ("cut-off"), if the following cumulative conditions are verified: (i) the tap issue is made during the 24 months following that cut-off date, (ii) maturity occurs no later than the 8th of July 2027, (iii) the total amount of tap issues made after 8th July 2022 does not exceed twice the total issue size of covered bonds outstanding on that date, (iv) the total nominal amount of covered bonds does not exceed EUR 6 billion at the maturity date, and (v) the underlying collateral assets are located in Portugal.

Issuers can either create new programmes or adapt those established under the former Portuguese covered bond legislation, for the issue of covered bonds under the RJOC. Either of these are subject to authorisation by the CMVM, the national capital markets regulator, with the adapted programmes and all covered bonds thereunder becoming subject to RJOC from the date of such authorisation. As established by the RJOC the new regulation published by CMVM replaced the regulation issued under the former Portuguese covered bond legislation.

Issuers can also choose to keep both their existing OH and OSP programmes pursuant to the old regime live and set up a new programme pursuant to the new RJOC.

II. STRUCTURE OF THE ISSUER

Portuguese covered bonds can only be issued by Portuguese credit institutions.

The RJOC allows for, and sets the terms of, the use of intragroup pooled covered bond structures, under which covered bonds issued by a credit institution ("internally issued covered bonds") are used as cover assets for the issue of covered bonds by another credit institution of the same group ("externally issued covered bonds").

III. COVER ASSETS

Eligible cover assets are primarily those listed in Article 129 of Regulation (EU) 575/2013 ("Article 129" or "CRR")[5], in the terms set out therein. By reference to Article 129, the RJOC limits the use of the label "*Obrigação Coberta Europeia (Premium)*" ("OCE Premium") to covered bonds backed by primary assets listed thereunder, in particular:

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1 Decree-law n.º 31/2022 of 6th May 2022

2 Directive (EU) 2019/2162

3 Decree-law n.º 59/2006

4 Provided they comply with the requirements laid down in Article 52(4) of "The Undertakings for Collective Investment in Transferable Securities Directive" (UCITS), the Directive 2009/65/EC, as applicable on the date of their issue, as set our locally in n.º 6 of article 176.º of "Regime Geral dos Organismos de Investimento Coletivo", approved as Annex to Law n.º 16/2015

5 As amended by Regulation 2019/2160, which together with Directive 2019/2162 forms the new European covered bond regulatory framework.

> exposures to certain public sector entities and authorities, central banks, subject to certain minimum ratings in the case of either of them being located outside the EU;

> loans secured by residential or commercial mortgages, with a maximum loan-to-value ratio ("LTV") of 80% and 60%[6], respectively; or

> loans secured by maritime liens on ships, subject to a maximum LTV of 60%.

Credit institutions with programmes issuing bonds labelled "*Obrigação Coberta Europeia*" ("OCE") are not bound by Article 129 and the following primary assets that are outside of the scope of Article 129 can be included in the respective cover pools:

i) high-quality cover assets in the form a first mortgage, charge, or lien over EEA-based physical assets for which there are generally accepted valuation standards and a public register of ownership and claims over such physical assets; such physical assets cover outstanding OCEs up to the lesser of the principal amount of the liens (combined with any prior liens) and 70% of the value of physical assets[7]; or

ii) assets in the form of credits to, or guaranteed by, public enterprises, provided the respective covered bonds are subject to a minimum overcollateralisation of 10%, as well as that such public enterprises are subject to public supervision and have sufficient revenue generating powers that ensure their financial soundness and solvability.

Junior claims are allowed in the cover pool (other than junior claims in respect of the assets listed in limb ii) above) provided all associated senior claims over the same assets are included in the same cover pool.

Regarding composition and homogeneity cover pools can only have one single class of primary assets, with residential and commercial mortgages jointly considered as one, in which case their relative ratio within the cover pool should not vary significantly over time.

Substitution assets, meaning eligible assets other than primary assets contributing to coverage requirements, can include: i) deposits with the Bank of Portugal of either cash or securities eligible for Eurosystem credit operations, ii) deposits in EEA-based credit institutions not part of the issuer's group or companies, and iii) other EEA-based, low-risk and high-quality assets. In the case of OCE Premium bonds, exposures to credit institutions are subject to Article 129 and therefore to certain minimum counterparty ratings.

The RJOC allows derivative contracts to be part of the cover pool, subject to certain structural requirements (see "V" below), and exclusively for risk hedging purposes.

The cover pool is proactively managed. If homogeneity, coverage, or liquidity buffer requirements are breached, the issuer must remedy such breaches by removing, or allocating new, primary or substitution assets, repurchasing outstanding covered bonds, or allocating new liquid assets to the liquidity buffer. Notwithstanding, credits turned delinquent after being assigned to the cover pool can remain part of it for so long as delinquency does not exceed 90 days, otherwise they are substituted.

Without prejudice to asset eligibility criteria and segregation principles, Portuguese covered bonds can be backed by credits lawfully acquired from another credit institution, subject to the conditions established under the RJOC for credit transfer between credit institutions.

IV. VALUATION AND LTV CRITERIA

The RJOC determines that the methodology and process of valuation of physical assets securing cover pool assets must follow certain guiding principles. Upon assignment of cover assets to the cover pool, the underly-

6 Commercial mortgages with 70% LTV are allowed in certain circumstances

7 Physical assets need to be adequately insured against risk of losses and damages

ing physical assets must have a current valuation amount no greater than the physical asset's market value or mortgage lending value. Valuation shall be conducted by qualified and experienced valuers, who are independent of the credit decision-making process, who ignore speculative elements in their appraisal, and document the valuation in a transparent and clear manner.

As a result, mortgage lending value shall be the property's commercial value determined on a prudent basis, considering fundamental property characteristics, normal local market conditions, based on both current and possible alternative uses. The property valuation should follow established and adequate methodologies, namely the "cost" method, the "income (yield)" method, and the "market comparison" method. The valuation should take the form of a written report including all methodological elements and necessary conclusions.

Property values must be verified at least every three years, in case of residential properties, or annually, in case of commercial properties. This can be done using established indexation methodologies once approved by the regulator. Property values should then be reviewed by a property valuation expert whenever there is indication of considerable depreciation. In the case of mortgage loan amounts greater than EUR 500,000, if backed by residential property, or greater than EUR 1 mln, if backed by commercial property, the property value must be reviewed by independent valuation experts at least every three years.

Valuation experts are deemed independent if they are not susceptible to be affected in their otherwise unbiased assessment. Namely, they must have no specific interest in the property in question or any relationship, commercial or personal, with the borrower. Further, valuation will not be regarded as independent if compensation payable to the valuation expert is somehow linked to the properties' valuation amounts. Valuation experts may however belong to the issuer's organisation, provided their action is fully independent from the credit underwriting process.

Lastly, credit institutions should ensure proper diversification and rotation of property valuers. They must keep an updated list of selected valuers, together with the criteria justifying such selection, as well as the properties valued by such valuers. This list must be reported annually to the regulator until the end of January each year, with reference to 31 December, indicating any changes from the last report.

V. ASSET – LIABILITY MANAGEMENT

RJOC deals with risks associated with asset-liability mismatch by imposing coverage requirements. Payment shortfall and refinancing risks are covered by the obligation of maintaining a liquidity buffer, whereas interest rate risk or foreign exchange risk can be addressed using derivative contracts.

Coverage Requirements and Overcollateralisation

All covered bond programme liabilities must be covered by claims over eligible cover assets. Liabilities include payment obligations on covered bonds and derivative contracts, as well as programme wind down, maintenance and administration costs, which can be estimated as a lump sum. Cover assets comprise primary assets, substitution assets, liquid assets held under the liquidity buffer requirement (see below) and amounts receivable under derivative contracts. Unsecured credits where a default is deemed to have occurred[8] do not count towards this coverage.

The aggregate principal amount of all cover assets shall be equal to, or exceed, the aggregate principal amount of outstanding covered bonds ("nominal principle"). Coverage can be calculated on a net present value basis (including stress scenarios) or by applying a prudent market value approach provided that does not result in a higher coverage ratio. Assets and liabilities must be valued using the same methodology.

8 As per Article 178 of the CRR

Notwithstanding the nominal principle, issuers are legally bound by minimum overcollateralisation ("OC") requirements. Specifically, any programme issuing OCE Premium bonds needs to maintain a minimum OC of 5%, for as long as any such bonds are outstanding; programmes issuing OCE Premium bonds backed by commercial mortgages with LTVs above 70% need to maintain a minimum OC of 10%; programmes issuing OCE bonds backed by credits to, or guaranteed by, public enterprises as primary assets and in the terms of the RJOC, need to maintain a minimum OC of 10%.

Liquidity Buffer

The risk of payment shortfall is addressed by the requirement of a liquidity buffer composed of liquid assets available to cover the programme's maximum cumulative net liquidity outflow over the following 180 days. Such assets are part of the cover pool and thus subject to segregation.

The liquidity buffer can comprise: i) assets qualifying as level 1, level 2A or level 2B assets[9], not issued by the covered bond issuer, by its parent company (unless such parent company is a public sector entity that is not a credit institution), by a subsidiary of the same group of companies, or by a securitisation special purpose entity with which the covered bond issuer has close links; or ii) short-term exposures to credit institutions with credit rating "A-" or better, or short-term exposures (including deposits) to credit institutions with credit rating "BBB-" or better, in accordance with point (c) of Article 129 (1) of the CRR.

Unsecured credits where a default is deemed to have occurred[10] cannot contribute to the cover pool liquidity buffer. For covered bonds with extendable maturity, calculation of the programme's maximum cumulative net liquidity outflow considers the final (extended) maturity date for principal outflow, as set by the applicable contractual terms and conditions.

Derivative Contracts

Issuers can use eligible derivative contracts for risk hedging purposes only. Their volume needs to be adjusted in the event of a reduction in the risk covered, and any such contracts included in the cover pool shall terminate once the hedged risk ceases to exist, be sufficiently documented, be subject to the segregation principle described in "VIII" below, and not be terminated upon issuer insolvency or resolution. Furthermore, the cover pool can only include derivatives which comply with the criteria set out in the RJOC in respect of the eligibility of hedging counterparties (including, without limitation, derivative instruments traded in a regulated market or multilateral trading facility of an EU Member State, or contracts entered into with certain eligible counterparts in the EEA).

Extendable Maturity Structures

The RJOC allows extendable maturity structures. Covered bond maturities can be extended upon, either the withdrawal of the issuer's banking license, or a foreseeable or actual failure to pay amounts due at the scheduled maturity that cannot be remedied within 10 business days. A failure to pay and its respective grounds must be communicated to the CMVM at least 10 days before the maturity extension's effective date. The CMVM can oppose to such extension within a 10-day period. These non-discretionary triggers must be specified in the issue's terms and conditions, with the final maturity date determinable at all times. Also, upon an insolvency event, such maturity extension must not affect investors' ranking or invert the programme's original maturity schedule. Lastly, information provided to investors has to be sufficient to determine the bond's risks, including the impact of insolvency or resolution of the issuer on a maturity extension, as well as the role of the CMVM in the maturity extension procedure.

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9 Pursuant to the applicable delegated regulation adopted pursuant to Article 460 of Regulation (EU) No 575/2013, valued in accordance with that delegated regulation

10 As per Article 178 of the CRR

Additional Regulatory Requirements

Covered bond issuers are obliged to regularly report evidence of compliance with applicable regulatory requirements concerning foreign exchange risk, liquidity risk, interest rate risk and asset coverage.

VI. TRANSPARENCY

Portuguese covered bonds issuers ensure data consistency and transparency by adopting the European Covered Bond Label Harmonised Transparency Template ("HTT"), which has been continuously adapted to market needs as well as regulatory and legal requirements over recent years. This year's adaptation focused mainly on the compliance with Article 14 of the Covered Bond Directive, which has been transposed into the RJOC. With the HTT, issuers should be providing sufficiently detailed information, at least on a quarterly basis, to allow investors to assess the risk profile of the covered bond programme, including at least a) the value of the cover pool and outstanding covered bonds; b) the list of ISINs of all covered bond issued; c) a geographical distribution and type of cover assets, their loan size and valuation method; d) details in relation to market risk, including interest rate risk and currency risk, and credit and liquidity risks; e) the maturity structure of cover assets and covered bonds, including an overview of the maturity extension triggers if applicable; f) the levels of required and available coverage, and the levels of statutory, contractual and voluntary overcollateralisation; and h) the percentage of loans where a default is considered to have occurred or that are more than 90 days past due. The HTT templates are typically published on a quarterly basis both on the issuer's institutional website and on the Covered Bond Label website[11].

VII. COVER POOL MONITOR AND BANKING SUPERVISION

Covered bond issuers must appoint an independent auditor – the "cover pool monitor" – who acts in the best interests of covered bond holders, both until and after an issuer insolvency event, and continuously verifies the quality of the cover pool and its compliance with applicable legislation, including asset eligibility criteria, derivatives, segregation, composition and homogeneity of the cover pool, as well as any intragroup and joint funding structure, hedging and liquidity requirements, and the information provided to investors.

The cover pool monitor is deemed independent if it (i) has not been the issuer's auditor during the two years preceding its designation as cover pool monitor, and (ii) is not closely associated with the issuing entity, in particular by having, or acting on behalf on any entity with, more than 5% shareholding in the issuing entity, and (iii) has not acted as the cover pool monitor of the relevant covered bonds issue or covered bonds programme for ten consecutive years.

The RJOC allows the cover pool monitor not to be separate from the issuer ("internal cover pool monitor") provided the internal covered pool monitor i) has no role and is independent from the credit decision-making process, ii) can only be removed by the management body in its supervisory function, and iii) has direct access to the management body in its supervisory function.

Compliance with the legal and regulatory requirements above are the subject of a cover pool monitor report, both prior to the establishment of a covered bond programme, and annually with reference to 31st December and to be delivered to the CMVM by the following 31st March.

Any irregularity detected by the cover pool monitor should be immediately and simultaneously reported to the CMVM, and to the issuer who must implement respective remedies. Any dismissal of the auditor must be properly justified and communicated to the CMVM within 10 days.

11 https://www.coveredbondlabel.com/issuers/national-information-detail/19/

VIII. SEGREGATION OF COVER ASSETS AND BANKRUPTCY REMOTENESS OF COVERED BONDS

All cover assets (including any substitution assets and derivative contracts) shall be held by the issuer in separated accounts (the "cover register") and identified under a codified form. The legal effect of the cover register is the segregation of those assets from the insolvent estate of the issuer, forming a separate legal estate (the "cover pool") administered in favour of the covered bondholders and any other special claimant.

In addition to a common claim over the issuer, covered bond holders benefit from a special preferential claim (privilégio creditório) over the cover pool for the redemption of principal and payment of interest. This preferential claim has precedence over that of any of the issuer's creditors, while mortgages that guarantee these credits prevail over any other real estate preferential claims. Portuguese covered bond legislation thus supersedes the national general bankruptcy regulation. This preferential claim is shared with the derivative counterparties whose contracts are part of the cover pool on a pari passu basis with bondholders. Consequently, their contracts are not expected to be called in case of insolvency of the originator.

In case of insolvency, dissolution or wind-up of the issuer ("insolvency event")[12], the RJOC establishes the cover pool shall be segregated from the insolvency estate of the issuer and will not form part of it until full payment of any amounts due to covered bond holders and derivative counterparties. Also, all amounts corresponding to payments under any assets in the cover pool will not form part of the insolvency estate of the issuer.

An insolvency event does not trigger an automatic acceleration of the covered bonds. However, covered bond holders are entitled to pass a resolution approving the immediate acceleration of the covered bonds by a majority of at least two thirds of the votes of the holders of covered bonds then outstanding.

The CMVM shall work together with the Bank of Portugal to ensure protection of the best interest of covered bond holders, including the management of the cover pool.

Upon an insolvency event, the CMVM appoints a cover pool special administrator who shall (i) autonomously manage the cover pool, including if necessary, the transfer of the cover pool, together with associated covered bond payment obligations, to another covered bond issuer and (ii) ensure payments of any amounts due to the holders of covered bonds.

The cover pool special administrator shall provide for the liquidation of the cover pool for the benefit of covered bond holders and derivative contract counterparties, who will rank pari passu among themselves. If cover assets liquidation proceeds prove to be insufficient to make up for all due and payable amounts, for the remaining due amounts covered bond holders and derivative counterparties will rank pari passu with issuer's senior creditors in relation to all other the issuer's assets. Remuneration of the cover pool special administrator is set by the CMVM and is paid out of cover pool funds or liquidation proceeds.

IX. RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

The legislation when taken together with the practices, processes and procedures across the industry should fall within the criteria of Article 129 CRR. Portuguese covered bonds meet the requirements of Article 129 CRR. Credit institutions investing in covered bonds within the scope of the Portuguese jurisdiction qualifying under Article 129 of Regulation 575/2013 (CRR) can apply a 20% risk weighting. The risk-weighting of derivatives that are included in the cover pool will be 20%. Investment funds can invest a maximum of 25% of their own funds in a single issuer's covered bonds.

12 Under any applicable laws and regulations, including under Decree-Law No. 199/2006, Decree-Law No. 298/92, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-Law No. 53/2004

X. ADDITIONAL INFORMATION

The EUR 36,500 mln Portuguese covered bond market is vastly backed by residential mortgages, with the exception being BPI's EUR 600 mln public-sector loan backed programme. It is mostly one of 12-month soft-bullet maturities, even if conditional pass-through structures gained some ground between 2015 and 2019, with the emergence of two programmes – one by Novo Banco, one by Banco Montepio – making up a total of EUR 7,800 mln of outstanding bonds.

The national banking sector maintains its generally comfortable liquidity position, to a good extent supported on the accommodative ECB's monetary policy. This together with MREL instrument issuance requirements, to which covered bond issuers are subject to, resulted in limited market activity over recent years..

New issuances during 2022 have been limited to private placements and mainly to refinance maturing bonds. Santander Totta refinanced their EUR 750-mln covered bond upon maturity, in March. Later, in June, BPI issued a EUR 450-mln public sector covered bond, and EUR 2,050-mln mortgage covered bond, to refinance two public sector bonds maturing in October, and two mortgage covered bonds maturing in July and December, respectively. In November, Caixa Económica Montepio Geral (Banco Montepio) made a 750-mln "tap" on an outstanding covered bond, following a bond maturity on the previous month. Otherwise, BCP repaid its EUR 1,000-million public benchmark covered bond in May, while Caixa Geral de Depósitos repaid two privately-placed covered bonds of EUR 1,000 mln and EUR 250 mln, in January and June, respectively.

Issuers: NOVO BANCO, S.A., Banco BPI, S.A., Banco Comercial Português, S.A., Banco Santander Totta, S.A., Caixa Económica Montepio Geral, Caixa Geral Depósitos, S.A.

COVERED BOND LABEL : NOVO BANCO, S.A. (1 pool) , Banco BPI, S.A. (1 pool) , Banco Comercial Português, S.A. (1 pool), Banco Santander Totta, S.A. (1 pool), Caixa Geral Depósitos, S.A. (1 pool).

For the most up-to-date information, please consult the new ECBC Covered Bond Comparative Database webpage on the Covered Bond Label website www.coveredbondlabel.com or via the following QR code: