

PRESS RELEASE

Consolidated results 2017 ^(*)

(Unaudited financial information)



CGD's Strategic Plan 2020 on the right track, successfully completing the year 2017, based on business evolution, capital and liquidity, allowing the return to profits

■ Successful implementation of CGD's Strategic Plan 2020, in 2017, resulting in an improvement in its levels of efficiency and profitability and leading to a net income of €52 million.

■ Special reference should be made to the following, in 2017:

- The positive 19% increase of €201 million in net interest income to €1,241 million.
- The 3% growth of net commissions over 2016.
- The net trading income increase €139 million, over the preceding year, to €216 million.
- The significant 38% increase of €541 million in total operating income to €1,965 million, deriving from the evolution of the above components.
- The 7% reduction of €79 million in recurrent operating costs over 2016.
- The low costs of credit risk in 2017, €86 million of impairments (0.13% of the loan stock).

(EUR Million)

CONSOLIDATED ACTIVITY	2016-12	2017-12	Y-o-Y Change
Net interest income	1,040	1,241	19%
Net fees and commissions	450	465	3%
Net trading income	77	216	182%
Total operating income	1,423	1,965	38%
Recurrent operating costs ⁽¹⁾	1,151	1,072	-7%
Net core operating inc. before imp. ⁽¹⁾	338	634	87%
Provisions and impairments	2,999	677	-77%
Net income from current activity ⁽¹⁾	-1,827	661	-
Net income	-1,860	52	-

■ Core operating income ⁽¹⁾ in 2017, fuelled by the growth of net interest income and reduction of recurring operating costs was up 87% to €634 million in the period.

■ Cost-to-income (excluding non-recurring costs) was down to 53% in 2017 as a consequence of the good performance referred to in the recurring operating costs and income components. Cost-to-core income, which also excludes net trading income, was 63%.

■ Net income for 2017, impacted by non-recurring costs of €609 million, was €52 million.

(1) Excluding the non-recurring costs of employee reduction programmes and costs related with the restructuring and disposal of national and international assets, as well as the application of IAS 29 to the activity in Angola, as applicable to each Profit and Loss heading, for a total amount net of tax of €609 million in 2017 and €32 million in 2016.

■ Total non recurrent costs, a net amount of 609 M€ and 32 M€ in 2017 and 2016, are related to staff reduction programmes, international and domestic operations restructuring and disposals costs and as well as the application of IAS 29 to the activity in Angola with an impact of €30 million.

■ CGD's asset quality evolved positively in 2017, with NPE⁽²⁾ and NPL⁽³⁾ ratios of 9.3% and 12.1% respectively against 12.1% and 15.8% in December 2016.

■ NPL amount was reduced by €2.7 billion (-26%) with a coverage by impairments of 57.2% in December 2017.

■ The loans-to-deposit ratio of 87% in CGD's balance sheet in December 2017 reflected the strong confidence of CGD's customer base, even in an environment of historically low interest rates on deposits.

■ Total customer resources in terms of domestic activity, influenced by the favourable evolution in government bonds, mutual funds and insurance products placements were up 2% by €1,370 million over December 2016, to €68,648 million.

■ CGD therefore retained its leading position in the domestic market with a total 27% share of deposits in November 2017 (30% in the case of individual customers' deposits).

■ CGD's liquidity position remained highly comfortable with a Liquidity Coverage Ratio (LCR) of 209%. Total financing from the ECB was down €60 million over the preceding year to €3.5 billion at the end of 2017, i.e. around 3.7% of total assets.

■ The phased-in and fully implemented CET 1 ratios in December were both 14.0%, with phased-in Tier 1 and Total ratios of 15.1% and 15.7%, respectively, complying with the regulatory requirements.

■ CGD had ADI (Available Distributable Items) of €1.8 billion (around 33 times the annual cost of its current AT1 issuance) with 3.3% in excess of the level of MDA (Maximum Distributable Amount) restrictions considering the current Tier 1 and Tier 2 deficits and 5.2% if considering that such deficits will be fully cleared by future issuances.

(*) The December 2016 values have been restated, considering BCG Espanha, BCG Brasil and CGD Investimentos CVC as a non-current asset held for sale. Mercantile Bank Holdings was already reclassified as such since December 2016. The whole analysis in this document was done comparably to the 2016 restated accounts.

(2) NPE - Non performing exposure (as defined by EBA)

(3) NPL - Non performing loans (as defined by EBA)

1. MAIN INDICATORS

CGD CONSOLIDATED	Restated	
BALANCE SHEET AND P&L INDICATORS (EUR million)	2016-12	2017-12
Net assets	94,411	93,248
Loans and advances to customers (net)	59,413	55,255
Customer resources	66,692	63,631
Total operating income	1,423	1,965
Net core operating Income before impairments ⁽¹⁾	338	634
Net income	-1,860	52
Net income from current activity ⁽²⁾	-1,827	661
PROFIT AND EFFICIENCY RATIOS		
Gross return on equity - ROE ^{(3) (4)}	-46.7%	4.1%
Net return on equity - ROE ⁽⁴⁾	-32.0%	1.1%
Gross return on assets - ROA ^{(3) (4)}	-2.7%	0.3%
Net return on assets - ROA ⁽⁴⁾	-1.8%	0.1%
Return on tangible equity (ROTE)	-33.4%	0.7%
Return on tangible equity (ROTE) from current activity ⁽²⁾	-32.8%	9.3%
Total operating income / Average net assets ^{(3) (4)}	1.5%	2.1%
Employee costs / Total operating income ^{(3) (4)}	45.0%	33.1%
Employee costs recurrent / Total core operating income ^{(1) (2)}	43.5%	36.0%
Cost-to-income BoP ⁽³⁾	79.5%	55.5%
Cost-to-income ^{(2) (3)}	78.3%	52.7%
Cost-to-core income ^{(2) (5)}	77.3%	62.9%
CREDIT QUALITY AND COVER LEVELS ⁽⁶⁾		
Credit more than 90 days overdue ratio ^(*)	6.9%	7.0%
Non-performing credit ratio ⁽³⁾	8.4%	7.6%
Non-performing credit (net) ratio ⁽³⁾	0.2%	0.3%
Credit at risk ratio ⁽³⁾	10.5%	8.9%
Credit at risk (net) ratio ⁽³⁾	2.4%	1.8%
Restructured credit ratio ⁽⁷⁾	9.0%	6.8%
Restructured cred. not incl. in cred. at risk ratio ⁽⁷⁾	4.2%	3.0%
NPL ratio - EBA	15.8%	12.1%
NPE ratio - EBA	12.1%	9.3%
NPL coverage - EBA	52.8%	57.2%
NPE coverage - EBA	52.9%	56.6%
Credit at risk coverage	79.0%	81.3%
Credit more than 90 days overdue coverage ^(*)	123.7%	108.2%
Crd. imp. (P&L) / Loans & adv. custom. (aver.) ^(*)	3.40%	0.13%
STRUCTURE RATIOS		
Loans & adv. customers (net) / Net assets	62.9%	59.3%
Loans & adv. customers (net) / Customer deposits ⁽³⁾	89.3%	87.0%

Note: Indicators calculations according to glossary at:

https://www.cgd.pt/English/Investor-Relations/Other-information/Glossary/Other-versions/Documents/Glossary_2FEB2018.pdf

Solvency and credit quality ratios as of end-December 2017 are estimated, subject to change upon their definitive calculation.

(1) Net core operating Income before impairments = Total operating income of core activity - Operating Costs; Total operating income of core activity = Net interest income + net fees and commissions; (2) Excluding the non-recurring costs of employee redundancy programmes and costs related with the restructuring and disposal of national and international assets, as well as the application of IAS 29 to the activity in Angola, as applicable to each Profit and Loss heading, for a total amount net of tax of €609 million in 2017 and €32 million in 2016.; (3) Ratios defined by the Bank of Portugal (instruction 23/2012); (4) Considering average shareholders' equity and net asset values (13 observations); (5) Operating costs /Total operating income of core activity; (6) Prudential perimeter, except w hen marked with (*); (7) Ratios defined by the Bank of Portugal (instruction 32/2013).

CGD CONSOLIDATED		
SOLVENCY AND LIQUIDITY RATIOS (CRD IV/CRR) ⁽¹⁾	2016-12	2017-12
<i>CET 1 (phased-in)</i>	12.1%	14.0%
<i>Tier 1 (phased-in)</i>	13.0%	15.1%
Total (phased-in)	14.1%	15.7%
<i>CET 1 (fully implemented)</i>	11.8%	14.0%
<i>Liquidity coverage ratio</i>	175.6%	208.9%
OTHER INDICATORS		
Number of branches - CGD Group	1,211	1,139
Number of branches - CGD Portugal (Physical branches from individuals network)	651	587
Number of employees - Domestic activity	8,868	8,321
Number of employees - CGD Portugal	8,113	7,689
CGD RATING	Short Term	Long Term
FitchRatings	B	BB-
Moody's	N/P	B1
DBRS	R-2 (mid)	BBB (low)

(1) Prudential perimeter

2. ECONOMIC-FINANCIAL ENVIRONMENT

2017 witnessed an improvement in the global economic framework, accompanied by low levels of inflation. According to the IMF (International Monetary Fund), the world economy posted real growth of 3.6% – the best result in three years – following the preceding year’s 3.2%. The 0.4 pp acceleration derived from the improvement noted in the developed bloc with an annual rate of expansion of 2.2% against 1.7% in 2016 and the emerging and developing bloc with a 0.3 pp progression in the rate of growth to 4.2%. This was the first acceleration in seven years.

A particularly positive achievement in the developed bloc, was the performance of the European economies both advanced and emerging, in a year in which the Euro Area was in evidence with a respective growth rate of more than 2.2%, its highest of the last decade, following growth of 1.8% in 2016. Unemployment down once again in 2017 for the fourth consecutive year.

The Portuguese economy expanded for the fourth consecutive year, in 2017. According to the INE (National Statistics Office) real GDP was up by an average 2.7% across the first three quarters of the year, up 1.2 pp over the same period 2016. The unemployment rate for third quarter 2017 was 8.5%, its lowest since the last quarter of 2008 and down 2 pp over the end of 2016.

Modest economic growth in the USA in the first quarter, in line with the last few years, was followed by a significant improvement of activity in the following quarters.

Following six years in a row of cooling economies, the accelerating growth of the emerging bloc, which helped to improve the synchronisation of last year’s economic framework benefited from improved growth in China as well as higher growth levels in other important emerging regions, particularly Latin America and Eastern Europe.

There was an acceleration of global inflation in 2017 over the preceding year. This was particularly on account of the “energy” effect which helped to assuage fears over the very low levels of interest in 2016. According to the IMF’s World Economic Outlook, higher inflation derived from price hikes in the developed bloc (up 0.4 pp to 1.7%) as opposed to the emerging and developing bloc with an average 4.2% in 2017 in comparison to 4.3% in 2016.

In the Euro Area, the HICP (Harmonised Index of Consumer Prices) whose year-on-year change, unlike the preceding year, remained in positive territory across the year as a whole, grew by an annual average of 1.5%, up 1.3 pp over 2016. The Portuguese HICP posted an average annual rate of change of 1.4% – up 0.8 pp over the preceding year.

Notwithstanding the ECB's (European Central Bank's) recognition of the reduction of growth-related risks, reference rates remain unchanged and, in October, went so far as to announce an extension, at least up to September 2018, of the acquisition of bonds under the quantitative easing programme, although, from the beginning of this year the amount of the acquisitions had been reduced to a half (€30 billion per month).

This was offset by the US Federal Reserve's announcement of three hikes in the fed funds rate. At the end of last year the rate was set in a range of between 1.25% and 1.50%. In the United Kingdom, the Bank of England announced a 0.25% increase in its reference rate to 0.50%, at the beginning of November. This was the first increase since 2007.

Following the UK's referendum on Brexit and the US elections of 2016, 2017 ended with high levels of political uncertainty. The fact that the year was, however, characterised by low levels of volatility in the main risk categories suggests greater emphasis by investors on an economic environment trending to favourable. Investor optimism was also based on the recovery of most commodity prices and fewer fears over geopolitical events.

In 2017, most equity markets tended to appreciate in line with preceding years. The MSCI (Morgan Stanley Index of Global Share Prices) appreciated for a second consecutive year. In domestic terms 2017 witnessed an increase in the main equity markets, particularly in the USA and Europe, as well as in several emerging economies. Equity prices in the USA hit all-time highs, up by more than 20%, as was the case with Japan's Topix. The Eurostoxx600 was up 7.7% in 2017 in comparison to the Portuguese PSI20's 15.2%. The MSCI index for the emerging bloc was up 34.4%, its best performance since the 74.5% of 2009.

In 2017, the yield on US 10 year bonds was down by a slight 3.9 bps. The yield closed the year marginally above 2.40%. In the European economies with higher credit quality, in 2017, yields on 10 year bonds were up 21.9 bps and 9.9 bps in Germany and France, to more than 0.42% and 0.78% respectively at the end of December. In the case of the rates of the countries on the European periphery, one of the highlights of 2017 involves Portugal. Down 73.7 bps in first half 2017, the yield on Portugal's 10 year bonds was down 108.4 bps in the second half to close at 1.943%. Political constraints in Spain and Italy led the rates on ten year bonds to increases of 18.3 bps and 20.1 bps to more than 1.567% and 2.016%.

Euro area money market rates fell across the course of last year. Euribor rates, which fell to new lows across the year, accentuated the negative values, in average annual terms with 1 month, 6 months and 12 months Euribor rates of -0.368%, -0.329%, -0.260% and -0.145%. These values corresponded to reductions of -3.0 bps, -6.5 bps, -9.6 bps and -11.1 bps over the average for 2016. Eonia, in turn, remained very much in line with the ECB's deposit rate, with low volatility levels.

Notwithstanding the continued normalisation of monetary policy by the Federal Reserve and the strong acceleration of economic growth starting Spring 2017, the dollar lost ground against the other leading currencies. The main highlight was the 14.2% drop against the euro, whereas in comparison to sterling and the yen the dollar fell 9.5% and 3.7%, respectively. In effective terms the Euro appreciated for a second consecutive year at 5.4%, in comparison to 2.0% in 2016, standing at \$1.2005 at the end of the year.

3. CONSOLIDATED INFORMATION

RESULTS

Net interest income was up 19.4% by €201.4 million to €1,241.1 million in 2017. This favourable evolution translated a 22.9% reduction of €327.7 million in funding costs, partly benefiting from the cancellation of CoCo bonds in the sphere of the recapitalisation measures (€84 million), which compensate the 5.1% reduction of €126.2 million in interest received.

RESULTS	Restated		Change	
	2016-12	2017-12	Total	(%)
Net interest income	1,039.6	1,241.1	201.4	19.4%
Net inter. income incl. inc. from equity investm.	1,091.0	1,287.4	196.5	18.0%
Net fees and commissions	449.9	464.9	15.0	3.3%
Total operating Income	1,423.4	1,964.7	541.3	38.0%
Operating costs	1,169.0	1,103.3	-65.7	-5.6%
Net operating income before impairments	254.5	861.4	606.9	238.5%
Net core operating income before impairments ⁽¹⁾	338.2	633.7	295.5	87.4%
Credit impairment (net)	2,382.8	85.9	-2,296.9	-96.4%
Provisions and impairments of other assets (net)	616.2	591.2	-25.0	-4.1%
Net operating income	-2,744.5	184.3	2,928.8	-
Net income from current activity ⁽¹⁾	-1,827.2	661.0	2,488.2	-
Net income	-1,859.5	51.9	1,911.5	-

(1) Excluding non-recurrent costs.

Net fees and commissions for the year was up 3.3% by €15.0 million to €464.9 million over 2016 which marked the start of recovery path in this business area.

Net trading income, at the end of 2017, totalled €215.8 million. This compares favourably with the €76.6 million at the end of the preceding year. The income particularly reflects the positive trajectory of derivatives, following the adequate management of risk hedging instruments and evolution of interest rates.

In spite of a negative €3.3 million, other operating income compared highly favourably with the negative €194.0 million of 2016, the year in which significant unrealised losses were made on investment properties.

Therefore, as a particular reflection of the positive contribution of net interest income and net trading income, total operating income was up 38.0% by €541.3 million over the preceding year to €1,964.7 million in 2017.

Recurring operating costs for the year were down 6.9% by €79.0 million to €1,072.0 million. Non-recurring costs of €226.9 million were recognised in provisions in the same period for the employee reduction programme with €382.3 million being recognised in provisions for the restructuring and disposal of international activities.

Cost-to-income (excluding non-recurring costs) was down from 78.3% in 2016 to 52.7% in 2017 as a consequence of the good performance referred to in the recurring operating costs and income components. Cost-to-core income, which also excludes net trading income was down from 77.3% to 62.9%.

Net operating income before impairment was up 238.5% by €606.9 million over 2016 to €861.4 million. Core operating income ⁽⁴⁾ was up 87.4% by €295.5 million over 2016 to €633.7 million in the period, fuelled by the growth of total operating income and reduction of recurring operating costs.

Provisions and impairment for the period of €677.1 million particularly refer to provisions and impairment of other assets (net) of €591.2 million, including non-recurring items related with provisions for the Employee Reduction Programmes up to 2020 (€226.9 million) and the restructuring and disposal of international activities (€382.3 million).

Credit impairment (net) amounted to €85.9 million, for the year, after the strong increase occurring in 2016 following the asset valuation exercise undertaken at the end of the said year.

The cost of credit risk for the year therefore remained low, with net credit impairment comprising 0.13% of the credit portfolio.

Operating income for the year amounted to €184.3 million, against a negative €2,744.5 million in 2016. Excluding non-recurring costs, recurring operating income in 2017 was €834.5 million.

Tax for the period amounted to €215.8 million, of which €36.5 million referred to the special banking sector contribution.

Income from subsidiaries held-for-sale was up 136.8% by €48.3 million to €83.6 million, influenced by the contribution of CGD Investimentos CVC (Brazil) whose results benefited from the impacts of the disposal of Rico Corretora.

Although the above described evolution, net income was positive of €51.9 million in 2017.

BALANCE SHEET

CGD's consolidated net assets were down 1.2% by €1,163 million over December 2016 to €93,248 million at the end of 2017. Its evolution particularly includes the increase of the cash and cash equivalents at central banks and securities investment accounts which reflect the impact of the occurrence of recapitalisation operations whose financial settlement occurred on 30 March. Loans and advances to customers (net), on the other hand, were down by 7.0% in annual terms, also influenced by the NPL reduction policy.

(EUR Million)				
BALANCE SHEET - Main headings	Restated		Change	
	2016-12	2017-12	Total	(%)
Net assets	94,411	93,248	-1,163	-1.2%
Cash and loans and advances to credit instit.	5,916	8,348	2,433	41.1%
Securities investments ⁽¹⁾	14,077	15,804	1,727	12.3%
Loans and advances to customers (net) ⁽²⁾	59,648	55,255	-4,393	-7.4%
Loans and advances to customers (gross) ⁽²⁾	65,188	59,764	-5,424	-8.3%
Central banks' and credit institutions' resources	4,492	4,043	-449	-10.0%
Customer resources	66,692	63,631	-3,061	-4.6%
Debt securities	4,184	4,051	-132	-3.2%
Shareholders' equity	3,883	8,274	4,391	113.1%

(1) Includes assets with repo agreements and trading derivatives.

(2) Includes assets with repo agreements.

(4) Net interest income + Net fees and commissions – Recurrent operating costs

The securities investments balance, including securities with repurchase agreements and trading derivatives was up 12.3% by €1,727 million over the preceding year to €15,804 million at the end of 2017. This result essentially derives from the investment of a part of the funds generated by CGD's capital increase, consolidating the diversification strategy of the securities portfolio.

Total liabilities were down 6.1% by €5,555 million over December 2016. Reference should be made in terms of its evolution to the 4.6% reduction of €3,061 million in customer resources and 57.6% reduction of €1,396 million, in subordinated liabilities.

(EUR Million)				
RESOURCES TAKEN	Restated		Change	
	2016-12	2017-12	Total	(%)
Balance sheet	77,791	72,753	-5,038	-6.5%
Central banks' & cred institutions' resources	4,492	4,043	-449	-10.0%
Customer deposits (Consolidated)	66,529	63,499	-3,030	-4.6%
Domestic activity	53,184	52,319	-865	-1.6%
International activity	13,345	11,180	-2,165	-16.2%
Covered bonds	3,854	3,851	-3	-0.1%
Portuguese state - CoCos	900	0	-900	-100.0%
EMTN and other securities	1,854	1,228	-625	-33.7%
Other	163	132	-31	-18.8%
Off-balance sheet	28,596	31,014	2,419	8.5%
Investment funds	3,519	3,928	409	11.6%
Real estate investment funds	950	972	22	2.3%
Pension funds	3,440	3,770	330	9.6%
Wealth management	19,271	19,456	185	1.0%
OTRV Portuguese Government Bonds	1,415	2,888	1,473	104.1%
Total	106,387	103,767	-2,620	-2.5%
Total resources from domestic activity⁽¹⁾	67,278	68,648	1,370	2.0%

(1) Includes customer deposits, investment funds, financial insurance, OTRV and other bonds.

CGD retained its leading position in the domestic market with a 26.6% share of total deposits in November 2017. Individual customers' deposits accounted for 30.2%.

The 4.6% reduction of €3,030 million in customer deposits to €63,499 million at the end of December 2017 essentially derived from international activity (down 16.2% by €2,165 million) and particularly in respect of the offshore branches which are being closed down.

Total resources taken from the domestic activity at the end of 2017 amounted to €68,648 million (+2.0% over December 2016), benefiting from the off-balance sheet resources evolution, up €2,419 million (+8.5%), with the special contribution of OTRV Portuguese Government Bonds operations (up €1,473 million).

Due note should also be taken of the evolution occurring in 2017 of amounts under unit trust fund management which were up €409 million to €3,928 million in December 2017. This allowed Caixagest to regain its leading position in terms of unit trust funds with an expressive market share of 32%.

Loans and advances to customers (gross, including loans with repurchase agreements) were down 8.3% over December of the preceding year to €59,764 million at the end of December 2017, with CGD Portugal loans to companies and individual customers down 14.0% and 4.5%, respectively. Special reference should be made in the case of this reduction to the process for reducing non-productive exposures of €1.434 million based on credit portfolio disposals and write-offs, and an amortization of credit higher than the new production, following the deleveraging of national economic agents.

(EUR Million)

LOANS AND ADVANCES TO CUSTOMERS	Restated		Change	
	2016-12	2017-12	Total	(%)
CGD Portugal	52,960	48,779	-4,182	-7.9%
Corporate	18,316	15,747	-2,569	-14.0%
General government	5,617	5,026	-591	-10.5%
Institutionals and other	1,028	1,265	237	23.1%
Individual customers	28,000	26,742	-1,259	-4.5%
Mortgage loans	27,064	25,861	-1,203	-4.4%
Other	936	880	-56	-6.0%
Other CGD Group companies	12,227	10,985	-1,242	-10.2%
Total	65,188	59,764	-5,424	-8.3%

Note: Gross loans and advances to customers, including repurchase agreements.

CGD's share of the credit market in November 2017 stood at 20.6% (17.2% for corporates and 25.4% for individual customers' mortgage loans).

The loans-to-deposits ratio in December 2017 stood at 87.0%, against 89.3% at the end of 2016, translating a larger reduction of the loans and advances to customers balance.

CGD's asset quality evolved positively in 2017, with total NPE ⁽⁵⁾ and NPL ⁽⁶⁾ values down 25% and 26%, respectively, over December 2016. The NPE ratio was, accordingly, reduced to 9.3% and the NPL ratio to 12.1% in December with impairment coverage of 56.6% and 57.2% respectively. The coverage rate in Portugal is 59.4% for NPE and 59.9% for NPL.

NPL, NPE and COVERAGE	Consolidated		CGD Portugal	
	2016-12	2017-12	2016-12	2017-12
Gross ratios				
NPE ⁽¹⁾	12.1%	9.3%	13.3%	10.2%
NPL ⁽²⁾	15.8%	12.1%	17.1%	13.3%
Credit at risk ⁽³⁾	10.5%	8.9%		
Coverage by impairments				
NPE	52.9%	56.6%	54.1%	59.4%
NPL	52.8%	57.2%	54.3%	59.9%
Credit at risk	79.0%	81.3%		

(1) NPE - Non performing exposure - EBA definition. (2) NPL - Non performing loans - EBA definition. (3) Ratios defined by the Bank of Portugal - Instruction 23/2012.

The credit at risk ratio, calculated in accordance with Bank of Portugal criteria, fell from 10.5% in December 2016 to 8.9% at the end of 2017, with an impairment coverage ratio of 81.3%.

The credit overdue more than 90 days ratio and respective impairment reached at 7.0% and 108.2% in December 2017.

LIQUIDITY

CGD financing from the European Central Bank has remained stable at €2 billion since June 2016. The amount of CGD's eligible assets portfolio for the ECB Collateral pool was up over 2016, from €10.6 billion to €11.9 billion at the end of 2017.

(5) NPE - Non performing exposure (as defined by EBA)

(6) NPL - Non performing loans (as defined by EBA)

CGD Group's exposure to the ECB was down €60 million, over December last year to €3.5 billion at the end of 2017. As regards the portfolio of eligible assets for the Eurosystem pool, reference should be made to a year-on-year increase of around €1.3 billion to €13.7 billion in December 2017, following a significant increase in available assets.

The outstanding balance on the EMTN programme trended downwards across the year by around €637 million over the end of December 2016. This trend, originated in past years, has been sustained by the fact that several issuances have matured without the need to refinance them on the capital market providing the Group with a comfortable liquidity situation.

The Liquidity Coverage Ratio (LCR) was 209% in December 2017 in comparison to 176% at the end of the preceding year. This exceeded regulatory requirements and European Union banks' average of 145% in September 2017.

SOLVENCY

The beginning of 2017 was marked by CGD's recapitalisation process resulting from the plan agreed between the European Commission and the Portuguese state, in which CGD issued €500 million in additional tier I own funds securities at the end of March to more than 160 institutional investors.

Demand for the securities was high, with the issuance having been oversubscribed by a factor of 4 and totalling more than €2 billion. The final amount was essentially distributed among investment funds (49%) and hedge funds (41%) with a relevant geographic footprint, particularly including the United Kingdom (59%) and Portugal (14%). The coupon rate of 10.75%, was lower than the originally forecast range of 11% to 11.5%.

This issuance made it possible to meet all of the conditions required for the state's capital increase and enabled the conclusion of the last stage of CGD's Recapitalisation Plan in which the state increased CGD's capital by €2.5 billion in cash. At the start of the year and in the context of a capital increase in kind, CGD had also received and cancelled the issuance of CoCo bonds, held by the Portuguese state, for the amount of €900 million.

The European Commission, sustained by the approval of the Industrial Plan submitted by CGD also decided to lift the interdiction on discretionary interest payments on subordinated debt, with CGD having resumed the payment of coupons to investors in March.

Consolidated shareholders' equity reflecting the two already implemented stages of the Recapitalisation Plan agreed between the Portuguese state and the European Commission (DG Comp) was up €4,391 million over the end of last year to €8,274 million at the end of 2017.

SHAREHOLDERS' EQUITY	Restated		Change	
	2016-12	2017-12	Total	(%)
Share capital	5,900	3,844	-2,056	-34.8%
Other capital instruments	0	500	500	-
Revaluation reserves	87	395	308	352.6%
Other reserves and retained earnings	-1,109	3,098	4,208	-
Non-controlling interests	864	385	-479	-55.5%
Net income	-1,860	52	1,911	-
Total	3,883	8,274	4,391	113.1%

Other equity instruments for the amount of €500 million, refer to the market issuance of additional tier 1 own funds at the end of March.

The evolution of other reserves and retained earnings, up €4,208 million since December 2016, largely derived from the extinguishing of 1,200 million shares occurring at the first stage of the

recapitalisation process to cover negative retained earnings and set up a positive free reserve.

The phased-in and fully implemented CET1 ratios in December were both 14.0%. The phased-in Tier 1 and Total ratios were 15.1% and 15.7%, respectively.

SOLVABILITY	Phased-in		Fully Implemented	
	2016-12 ^(*)	2017-12	2016-12 ^(*)	2017-12
CET I	12.1%	14.0%	11.8%	14.0%
Tier I	13.0%	15.1%	12.7%	15.0%
Total	14.1%	15.7%	12.9%	15.2%

(*) Proforma including the two phases of recapitalisation plan.

CGD has chosen not to make use of the transitional regime (phasing-in), estimating a non-materially relevant impact of the adoption of the accounting standard IFRS 9.

CGD at the time had ADI (Available Distributable Items) of €1.8 billion (around 33 times the annual cost of its current AT1 issuance) with 3.3% in excess of the level of MDA (Maximum Distributable Amount) restrictions considering the current Tier 1 and Tier 2 deficits of 5.2% and considering that such deficits will be cleared by future issuances.

RELEVANT EVENTS

Ten initiatives, referred to as “Encontro Fora da Caixa” were organised in various locations nationwide (Braga, Faro, Leiria, Lisbon, Oporto, Santarém, Funchal and Viseu), in 2017, with the aim of improving Caixa’s relationship with its customers and promoting business opportunities. The meetings dealt with issues of interest for the various sectors of economic activity in Portugal, as well as the construction of a strategic vision for companies and the country, with the participation of more than 3,300 CGD customers.

According to BrandScore, Caixa continued to be the brand with the best recognition factor in the Portuguese banking sector and the most attractive banking brand in the eyes of non-customers.

Following its launch in June 2017, Caixa’s new offer achieved a global number of more than 900,000 accounts in December 2017, increasing to more than 1,000,000 in January 2018. This new type of offer of bank accounts proved to be simpler and in line with customers’ needs, generating better quality relationships and greater loyalty towards the bank.

Sales of unit trust funds across CGD’s branch office network, in 2017, accounted for a global amount under management of €3,928 million (up €409 million), allowing Caixagest to regain its leading position in terms of unit trusts with an expressive 32% share of the domestic market.

With the aim of promoting and contracting for trade lines and lines of credit for CGD and CGD Group banks, two lines were taken out with the EIB (European Investment Bank) last December, to include:

- A €150 million loan to facilitate the investment projects of small and medium sized Portuguese enterprises (SMEs), with the aim of promoting economic growth and job creation in Portugal. This is the last tranche of a €300 million loan from the EIB to CGD to improve corporate funding facilities;
- A €30 million line of credit, in which CGD provided an additional €30 million, to fund projects eligible for investments and related with the energy efficiency, renewable energies and environmental management projects of individual customers and SMEs. CGD was the first Portuguese financial institution to take out this facility with the EIB under the Linha BEI Casa Eficiente [Efficient Home Programme]. The Casa Eficiente programme is a Portuguese government initiative.

Caixadirecta currently has more than €1.4 million customers with active contracts, comprising both individual and corporate customers who performed more than 720 million fully secure operations 24/7, 365 days a year, in 2017. Caixadirecta is the internet banking service with the highest number of domestic users and accounts for around 50% of the total number of internet banking users in Portugal (Basef – July 2017).

There was a total number of more than 500,000 unique users of the Caixadirecta app for individual customers in December 2017, up 35% across the year. More than 320 million operations comprising a global amount of around €1.5 billion were performed via the app.

Caixa continues to be the leader in terms of digital communication in Portugal. Special reference should be made to the following indicators:

- More than a million unique visitors to the cgd.pt site, with 38% of accesses originating from more than 180 countries;
- The only banking site in the top ten as measured by number of page views of PT addresses and domains (Source Marktest/Netpanel – Jan/Nov 2017);
- More than 300,000 followers on social networks to which it subscribes (Facebook, Instagram, LinkedIn, Google +) as the bank with the largest number of profiles.

In the sphere of CGD's Quality Management, the maintenance of the five processes certified to ISO 9001, on Financial Markets, Prevention and Security, Customer Suggestions and Complaints, Information Systems and the Management and Execution and Control of Operating and Contact Centre Processes were guaranteed in 2017.

Certification of the Headquarters Building Environmental Management System (ISO 14001), Business Continuity System (ISO 22301), was also renewed. The Information Security Management System to ISO 27001 is currently being implemented.

The number of complaints received in 2017 was down 4.5% over 2016 with endeavours continuing to be made to ensure consistent rigorous, prompt, responses with the aim of protecting Caixa's good reputation and professionalism in order to make continuous improvements to its service. 84% of the improvement opportunities identified have been accepted, reported or under analysis.

Special reference should be made to the market performance of CGD 10.75% AT1 perpetual securities that, after its issuance in March 2017, progressed positively in the secondary market, with a price appreciation of 15.4% in 2017, reaching a maximum of 119.8% in January 2018.

Reference should be made to the award of the following prestigious prizes and distinctions in 2017:

- Best Bank - Caixa was the winner of the Best Bank prize for the third successive year in the sphere of the Europe Banking Awards 2016, from EMEA Finance magazine;
- Best Investment Bank Portugal 2017 - CaixaBI was considered to be the best investment bank in Portugal 2017, by the US Global Finance magazine;
- Best Investment Bank in Portugal 2017 - from Euromoney (Awards for Excellence);
- Data Integrity Compliance - Regional Award 2016 – Caixa was distinguished by MasterCard as its acquirer on point-of-sale terminals (POS);
- 1st Green Project Awards Portugal 2016 prize. The "Recycling of Bank Cards" project was the winner of the 9th edition of the Green Project Awards, in the "Efficient Management of Resources" category;
- Caixagest was distinguished by Morningstar, as the Best Domestic Bond Manager and Best Domestic Euro Cash Bonds Fund for the third consecutive year;

- Business Merit Prize in the Financial Services category from CISLA – Câmara de Comércio e Indústria Sul Africana [South African Chamber of Commerce and Industry]
- Most reputed brand in 2017 - CGD received the most reputable brand award in 2017, in the Banking category, according to the Marktest Reputation Index (MRI).

4. DOMESTIC AND INTERNATIONAL ACTIVITY

Domestic activity's contribution to CGD Group's current net income in 2017 was €388.2 million against the preceding year's negative €1,888.4 million.

(EUR Million)

DOMESTIC ACTIVITY	Restated		
CONTRIBUTION TO CONSOLIDATED P&L (*)	2016-12	2017-12	Change
			(%)
Net interest inc. incl. inc. from eq. investm.	658.5	818.7	24.3%
Net fees and commissions	349.9	374.5	7.1%
Net trading income	-25.5	226.3	-
Other operating income	-135.8	28.0	-
Total operating income	847.0	1,447.6	70.9%
Employee costs	497.4	486.4	-2.2%
Administrative expenses	355.4	302.7	-14.8%
Depreciation and amortisation	65.8	51.8	-21.3%
Operating costs	918.6	840.8	-8.5%
Net operating income before impairments	-71.6	606.8	-
Credit impairment (net)	2,148.8	55.3	-97.4%
Provisions and impairments of other assets (net)	573.6	576.7	-
Net operating income	-2,794.0	-25.2	-
Income Tax	-830.3	171.0	-
Net operating income after tax and before non-controlling interests	-1,963.7	-196.2	-
Non-controlling interests	-1.7	3.2	-
Results of associated companies	46.9	23.6	-49.7%
Net income	-1,915.0	-175.9	-
Net income from current activity ⁽¹⁾	-1,888.4	388.2	-

(*) Pure intragroup transactions with no impact on consolidated net income are not eliminated.

(1) Excluding non-recurrent costs.

Reference should be made to the 24.3% increases in net interest income, including income from equity instruments over the preceding year and net trading income up to €226.3 million.

Net fees and commissions was up by a favourable 7.1% to €374.5 million.

Operating costs were down 8.5% by €77.8 million in 2017 to €840.8 million and included non-recurring costs for the amount of €10.4 million (€11.9 million in December 2016). Excluding non-recurring costs, employee costs were down 7.2% and operating costs down 8.4%.

In the sphere of the implementation of the Strategic Plan 2017-2020, across 2017 the objectives defined for reducing employee numbers and the size of the domestic branch office network were achieved. The branch office network in Portugal was therefore reduced by 64 to 587 in December with the number of employees engaged in domestic activity having been reduced by 424 across the same period. This is in line with the objectives for 2017 and, in spite of the reductions taking place in branch offices and number of employees, gave a customer retention rate of 95%.

Provisions and impairment (net) were down 76.8% to €632.0 million, split up between credit impairment of €55.3 million and provisions and impairment of other assets with €576.7 million, the latter being heavily impacted by the amounts of provisions for employee reduction programmes of €226.9 million and disinvestment in international activity (non-recurring cost of €382.3 million). Tax account headings for the year were, in turn, €171.0 million.

The contribution of domestic business to consolidated results was a negative €175.9 million.

(EUR Million)

INTERNATIONAL ACTIVITY	Restated		
CONTRIBUTION TO CONSOLIDATED P&L (*)	2016-12	2017-12	Change
	(%)		
Net interest inc. incl. inc. from eq. investm.	441.6	475.5	7.7%
Net fees and commissions	98.1	91.5	-6.8%
Net trading income	92.5	-18.2	-
Other operating income	0.2	17.3	7954.5%
Total operating income	632.5	566.0	-10.5%
Employee costs	163.9	172.6	5.3%
Administrative expenses	116.5	103.8	-10.9%
Depreciation and amortisation	26.0	35.0	34.9%
Operating costs	306.4	311.4	1.6%
Net operating income before impairments	326.1	254.7	-21.9%
Credit impairment (net)	234.1	30.6	-86.9%
Provisions and impairments of other assets (net)	42.6	14.5	-65.9%
Net operating income	49.5	209.5	323.6%
Income Tax	-6.3	44.8	-
Net operating income after tax and before non-controlling interests	55.7	164.7	195.6%
Non-controlling interests	36.1	21.6	-40.2%
Results from subsidiaries held for sale	35.3	83.6	136.8%
Results of associated companies	0.6	1.1	89.4%
Net income	55.5	227.8	310.4%
Net income from current activity ⁽¹⁾	61.2	272.8	345.9%

(*) Pure intragroup transactions with no impact on consolidated net income are not eliminated.

(1) Excluding non-recurring costs.

The international area's contribution to the Group's consolidated net income for 2017 was up 310.4% over the preceding year to €227.8 million. Excluding non-recurring costs in the international perimeter on the restructuring of such units, net income for this year's activity would have been €272.8 million.

These non-recurring costs relate to units closed in 2017 (Branches of London, Cayman, Off-shore Macau and Zhuhai), as well as to the impact of applying IAS 29.

Total operating income was down 10.5% by €66.5 million with net interest income, including income from equity instruments up 7.7% by €33.9 million, Operating costs were up 1.6% and provisions and impairment down 83.7%.

Excluding non-recurring costs, the operating costs reduction was 3.3%.

The result of subsidiaries held for disposal, influenced by the referred to contribution of CGD Investimentos CVC, was up €48.3 million to €83.6 million.

Net income from current international area activity in 2017 was €272.8 million. The main contributors were BNU Macau (€70.0 million), France branch (€49.6 million), CGD Investimentos CVC (€41.2 million) and BCG Spain (€26.3 million).

5. CONSOLIDATED ACCOUNTS

(EUR Million)

BALANCE SHEET	Restated			Change (Restated)	
ASSETS	2016-12	2016-12	2017-12	Total	(%)
Cash and cash equivalents with central banks	1,841	1,740	4,621	2,881	165.6%
Loans and advances to credit institutions	3,976	4,176	3,727	-448	-10.7%
Securities investments	15,017	13,889	15,751	1,862	13.4%
Loans and advances to customers	62,867	59,413	55,255	-4,158	-7.0%
Assets with repurchase agreement	800	422	53	-369	-87.5%
Non-current assets held for sale	1,426	7,282	6,757	-526	-7.2%
Investment properties	978	978	898	-80	-8.2%
Intangible and tangible assets	693	682	669	-12	-1.8%
Investm. in subsid. and associated companies	312	312	415	102	32.8%
Current and deferred tax assets	2,588	2,481	2,323	-159	-6.4%
Other assets	3,051	3,035	2,780	-256	-8.4%
Total assets	93,547	94,411	93,248	-1,163	-1.2%
LIABILITIES					
Central banks' and credit institutions' resources	5,800	4,492	4,043	-449	-10.0%
Customer resources	69,680	66,692	63,631	-3,061	-4.6%
Debt securities	4,184	4,184	4,051	-132	-3.2%
Financial liabilities	1,695	1,681	1,060	-620	-36.9%
Non-current liabilities held for sale	693	5,972	5,784	-188	-3.2%
Provisions	1,127	1,119	1,288	170	15.2%
Subordinated liabilities	2,424	2,424	1,028	-1,396	-57.6%
Other liabilities	4,061	3,966	4,088	122	3.1%
Sub-total	89,664	90,528	84,974	-5,555	-6.1%
Shareholders' equity	3,883	3,883	8,274	4,391	113.1%
Total	93,547	94,411	93,248	-1,163	-1.2%

(EUR Thousand)

INCOME STATEMENT	Restated		Change	
	2016-12	2017-12	Total	(%)
Interest and similar income	2,470,924	2,344,714	-126,210	-5.1%
Interest and similar costs	1,431,312	1,103,655	-327,657	-22.9%
Net interest income	1,039,612	1,241,059	201,447	19.4%
Income from equity instruments	51,373	46,383	-4,990	-9.7%
Net interest inc. incl. inc. from eq. investm.	1,090,985	1,287,442	196,457	18.0%
Fees and commissions income	568,228	589,151	20,922	3.7%
Fees and commissions expenses	118,378	124,289	5,911	5.0%
Net fees and commissions	449,850	464,862	15,012	3.3%
Net trading income	76,616	215,779	139,163	181.6%
Other operating income	-194,007	-3,373	190,634	-
Non-interest income	332,459	677,267	344,809	103.7%
Total operating income	1,423,443	1,964,709	541,266	38.0%
Employee costs	661,377	658,936	-2,441	-0.4%
Administrative expenses	415,867	357,590	-58,277	-14.0%
Depreciation and amortisation	91,722	86,765	-4,957	-5.4%
Operating costs	1,168,967	1,103,291	-65,676	-5.6%
Net operating income before impairments	254,476	861,418	606,941	238.5%
Credit impairment (net)	2,382,828	85,909	-2,296,920	-96.4%
Provisions and impairments of other assets (net)	616,154	591,199	-24,955	-
Provisions and impairments	2,998,982	677,108	-2,321,875	-77.4%
Net operating income	-2,744,506	184,310	2,928,816	-
Income Tax	-836,557	215,823	1,052,380	-
Current	-286,603	58,652	345,254	-
Deferred	-589,022	120,645	709,667	-
Special contribution on the banking sector	39,068	36,526	-2,542	-6.5%
Net op. inc. after tax and before non-controlling interests	-1,907,950	-31,513	1,876,437	-
Non-controlling interests	34,351	24,829	-9,522	-27.7%
Results of associated companies	47,480	24,688	-22,792	-48.0%
Results of subsidiaries held for sale	35,298	83,601	48,302	136.8%
Net income	-1,859,523	51,946	1,911,468	-

6. SEPARATE ACCOUNTS

(EUR million)

BALANCE SHEET		Change		
ASSETS	2016-12	2017-12	Total	(%)
Cash and cash equivalents with central banks	867	3,750	2,883	332.4%
Loans and advances to credit institutions	4,553	4,211	-342	-7.5%
Securities investments	15,999	17,337	1,338	8.4%
Loans and advances to customers	52,042	48,072	-3,970	-7.6%
Non-current assets held for sale	341	713	372	108.9%
Intangible and tangible assets	397	336	-61	-15.4%
Investm. in subsid. and associated companies	3,664	3,492	-172	-4.7%
Current and deferred tax assets	2,329	2,235	-94	-4.0%
Other assets	2,715	2,027	-266	-11.6%
Total assets	82,908	82,174	-734	-0.9%
LIABILITIES				
Central banks' and credit institutions' resources	5,954	4,847	-1,107	-18.6%
Customer resources	58,649	56,838	-1,811	-3.1%
Debt securities	4,217	4,053	-164	-3.9%
Financial liabilities	1,676	1,056	-620	-37.0%
Provisions	1,073	1,247	174	16.2%
Subordinated liabilities	2,622	1,128	-1,494	-57.0%
Other liabilities	6,300	5,833	-467	-7.4%
Sub-total	80,491	75,001	-5,490	-6.8%
Shareholders' equity	2,417	7,173	4,756	196.8%
Total	82,908	82,174	-734	-0.9%

(EUR thousand)

INCOME STATEMENT	Change			
	2016-12	2017-12	Total	(%)
Interest and similar income	1,939,389	1,725,180	-214,209	-11.0%
Interest and similar costs	1,274,441	890,360	-384,082	-30.1%
Net interest income	664,948	834,820	169,872	25.5%
Income from equity instruments	57,540	59,889	2,349	4.1%
Net interest income incl. income from eq. investm.	722,488	894,709	172,221	23.8%
Fees and commissions income	435,055	460,424	25,369	5.8%
Fees and commissions expenses	85,573	88,411	2,838	3.3%
Net fees and commissions	349,482	372,013	22,531	6.4%
Net trading income	32,826	218,633	185,807	566.0%
Other operating Income	-19,796	-65,260	-45,464	-
Non-interest income	362,511	525,386	162,875	44.9%
Total operating income	1,084,999	1,420,095	335,096	30.9%
Employee costs	503,720	492,574	-11,146	-2.2%
Administrative expenses	321,970	279,018	-42,952	-13.3%
Depreciation and amortisation	65,775	53,182	-12,593	-19.1%
Operating costs	891,465	824,774	-66,691	-7.5%
Net operating income before impairments	193,534	595,321	401,787	207.6%
Credit impairment (net)	2,216,408	119,092	-2,097,316	-94.6%
Provisions and impairments of other assets (net)	860,873	322,218	-538,656	-62.6%
Provisions and impairments	3,077,281	441,309	-2,635,972	-85.7%
Net operating income	-2,883,747	154,012	3,037,759	-
Income Tax	-833,334	129,370	962,704	-
Current	-327,376	30,406	357,782	-
Deferred	-541,788	65,454	607,242	-
Special contribution on the banking sector	35,830	33,509	-2,320	-6.5%
Net income	-2,050,413	24,642	2,075,055	-



Lisbon, 2 February 2018

