Presentation

CGD Strategic Plan 2020

10th March 2017

GIR – Investor Relations Office

Caixa Geral de Depositos
I. Executive Summary

II. Portuguese banking sector: context and challenges

III. CGD Strategic Plan 2020
Executive Summary

I. Executive Summary

Portuguese banking sector in a challenging context
- **Euribor to remain in low levels** for the medium term
- **Credit evolution still pressured** by the economic cycle and sector deleveraging
- **Operating platform** converging to a new normal to achieve higher productivity and deliver a digital customer experience
- Looking forward, the sector still needs to **reduce risk in balance sheet, strengthen capital and increase efficiency**

Pillars of CGD Strategic Plan 2020

1. **Enhancement of commercial effectiveness** to improve competitiveness: New approaches for individual and corporate clients with increase of cross selling and improvement of service levels
2. **Adjustment of operational platform** and investment in human resources: Re-sizing of distribution network and central support functions with optimization and simplification of CGD organization
3. **Restructuring of international operations** following a strategic and economic *rationale*: Focus on *core* markets with complementarity with the domestic *franchise*
4. **Strengthening of risk management model** and governance: Reduction of balance sheet risk, new underwriting policies, new specialized platforms for credit recovery

Objectives of Strategic Plan (2020)
- **Efficiency**: Reduction of operating costs in ~20%
- **Prudency**: Cost of Risk < 0.6%
- **Resiliency**: CET1 ≥ 14%
- **Profitability**: RoE > 9%
II. Portuguese banking sector: context and challenges

Prudent macroeconomic scenario with expectation of negative Euribor rates in the medium term

Real GDP growth
(Source: IMF)

3M Euribor
(Source: Forwards implicit market rates in 31st of December 2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>17</th>
<th>18</th>
<th>19</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,0%</td>
<td>1,1%</td>
<td>1,2%</td>
<td>1,2%</td>
<td>1,2%</td>
<td></td>
</tr>
<tr>
<td>-0,26%</td>
<td>-0,31%</td>
<td>-0,27%</td>
<td>-0,17%</td>
<td>+0,03%</td>
<td></td>
</tr>
</tbody>
</table>
II. Portuguese banking sector: context and challenges

Portuguese banking sector deleveraging

Credit growth in Portugal adjusted from securitization
YoY% change

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgages</th>
<th>Non-financial entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>12,7%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>8,3%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>3,4%</td>
<td>-7,4%</td>
</tr>
<tr>
<td>2014</td>
<td>-2,9%</td>
<td>-2,5%</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Loans-to-deposits ratio¹

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2010</th>
<th>2012</th>
<th>2014</th>
<th>2016²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>172</td>
<td>165</td>
<td>152</td>
<td>128</td>
<td>113</td>
</tr>
</tbody>
</table>

¹ (Credit to clients and financial entities) / (Individuals deposits and non-financial entities)
2 August 2016
SOURCE Bank of Portugal, Portuguese Banking Association
II. Portuguese banking sector: context and challenges

Banking market recovering, but still with moderate growth

Average annual credit production. Bn €

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mortgages</strong></td>
<td>15</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td><strong>Consumer finance</strong></td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Corporate</strong></td>
<td>56</td>
<td>43</td>
<td>30</td>
</tr>
</tbody>
</table>

SOURCE: Bank of Portugal
II. Portuguese banking sector: context and challenges

Physical distribution network in contraction

Branches per million inhabitants. 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>2010-15 reduction</th>
<th>2015 branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>-28%</td>
<td>669</td>
</tr>
<tr>
<td>Portugal</td>
<td>-15%</td>
<td>541</td>
</tr>
<tr>
<td>Germany</td>
<td>-14%</td>
<td>422</td>
</tr>
<tr>
<td>Belgium</td>
<td>-12%</td>
<td>313</td>
</tr>
<tr>
<td>Denmark</td>
<td>-33%</td>
<td>196</td>
</tr>
<tr>
<td>Sweden</td>
<td>-8%</td>
<td>182</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-38%</td>
<td>104</td>
</tr>
</tbody>
</table>

European average (~300)

SOURCE: National banking associations
II. Portuguese banking sector: context and challenges

Priorities for the Portuguese banking sector

Reduce balance risk
Average risk weight, %
-16 pp

Strengthen capitalization
CET1 ratio, %

Improve efficiency
Cost to income, %
-10 pp

Recover profitability
RoE, %

1 June 2016
SOURCE: Portuguese Banking Association, Bank of Portugal
II. Portuguese banking sector: context and challenges

Recapitalization and new investors in the sector

- **2014**: 4,9 Bn€ (Resolution Fund, August)
- **2015**: Banif acquisition (December)
- **2016**: Launch (March)
- **2017**: 1,3 Bn€, and new shareholder (February)

**Key part for market consolidation**

- **Barclays acquisition (April)**
- **CaixaBank acquisition (February)**

**CGD recapitalization**
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CGD Strategic Plan 2020: 4 pillars

1. Focus on economy
   Enhance commercial franchises (retail, SMEs, large corporates) to ensure sustainability

2. Competitiveness
   Adjust operational infrastructure (distribution platforms, central areas) and investment in human resources

3. International coverage
   Restructure the international portfolio as a complement to the domestic operation

4. Trust
   Strengthen the Group risk management model and governance to improve balance sheet solvency and resilience
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Enhancement of commercial effectiveness to improve competitiveness

Reorganize the commercial networks prioritizing the service to families, small businesses and SMEs

Enhance the offer and value proposition (including insurance and asset management)

Improve service levels and support the Portuguese companies, namely SMEs

Develop the digital channel with the introduction of new processes and online offering (e.g. digital credit underwriting)

Optimize pricing models to ensure the return on invested capital
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Commercial objectives defined in Strategic Plan 2020

- **Net interest income**
  - 2016: €635
  - 2020: ≥€1,100
  - 2016: 0.6%
  - 2020: ≥1.0%

- **Fees/ business volume**
  - 2016: 0.35
  - 2020: ≥0.45

- **Market share** (Deposits and credit)
  - 2016: 24%
  - 2020: 24%

- **Banking income/ business volume**
  - 2016: 1.0%
  - 2020: ≥1.5%

Note: Figures presented for domestic perimeter
III. CGD Strategic Plan 2020

Adjustment of operational platform and investment in human resources

Optimize commercial *network* keeping its national coverage and *leadership* position

Upgrade the commercial platform – *new branch formats, personalized service* (individuals and companies)

Re-sizing of *central services* – increase productivity and efficiency (digitalization)

*Simplify* structure and processes

Renew training and development plans for *talent*
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Operational objectives defined in Strategic Plan 2020

Number of branches
- 2016: 651
- 2020: 470-490

Number of FTEs
- 2016: 8,868
- 2020: ≤6,650

Branches market share
- 2016: 14%
- 2020: 13-15%

Operational costs
- 2016: €834
- 2020: ≤€720

Note: Figures presented for domestic perimeter
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Restructuring of international operations following a strategic and economic rationale

Maintain position (organic growth) in markets with *affinity with Portugal*

Operate a *business model* for each international unit ensuring a material contribution for group profitability

Strengthening *governance* – alignment with group strategy, risk policies and accountability for results

*Divest* or close *non-core* international operations
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Strategic objectives for international operations

**Assets (international)**
Bn €

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>≤12</td>
<td>-50%</td>
</tr>
</tbody>
</table>

**ROE (international)**
%

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13</td>
<td>+2 pp</td>
</tr>
<tr>
<td>2020</td>
<td>≥15</td>
<td></td>
</tr>
</tbody>
</table>

1 Excludes non recurrent results and portfolios to be transferred to domestic perimeter
Strengthening of risk management model and governance

*Reduce balance sheet risk* – increase credit coverage levels

Implement a new *credit underwriting model* *(risk-led)*

Strengthening *specialized units* for credit recovery

Reinforce *internal control* *(“3 lines of defense” model)*

Adjust *risk management* to highest standards of the industry *(SREP)*
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New risk management model to protect capital

CGD CET1 ratio (phasing-in)\(^1\)

%  

2007  

3Q 2012  

Target 2017  

Target 2020  

11.8%  

12.0%  

14.0%  

Ongoing initiatives

- Review of **Credit underwriting** policy
- Definition of **risk appetite** (RAS/RAF)
- **Plan for NPE reduction**
- Review of **NPE and NPA definition** (EBA methodology)
- **New CGD governance model**
- **New subsidiaries governance model**
- Upgrade of **ICAAP** and **ILAAP** methodology
- **EBA stress tests**

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1 Common Equity Tier 1 for 2007-2014 period
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Objectives for risk management

NPE ratio
%  
2016: 16  
2020: ~8

Real estate\(^1\) (net of impairments)
M€  
2016: 710  
2020: ≤500

Note: Figures presented for CGD S.A.

1 Foreclosure assets
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Strategic Plan guidance for a profitable and solid CGD

**Efficiency**  
Cost-to-income (domestic)  
- 2016: 82%  
- 2020: ≤45%

**Prudency**  
Cost-of-risk (domestic)  
- 2011-2016: >0.9%  
- 2020: <0.6%

**Resiliency**  
CET1 phasing in (consolidated)  
- 2015: 11%  
- 2020: ≥14%

**Return**  
ROE (consolidated)  
- 2011-2016: negative  
- 2020: >9%
Disclaimer

This document is intended to disclose general information, and does not constitute investment recommendation or professional guidance, nor can be interpreted as such. The values refer to 31 December 2016, except otherwise stated.
THANK YOU

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