Presentation

CGD Strategic Plan 2020

10th March 2017

GIR – *Investor Relations Office*

Caixa Geral de Depositos

Agenda

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**

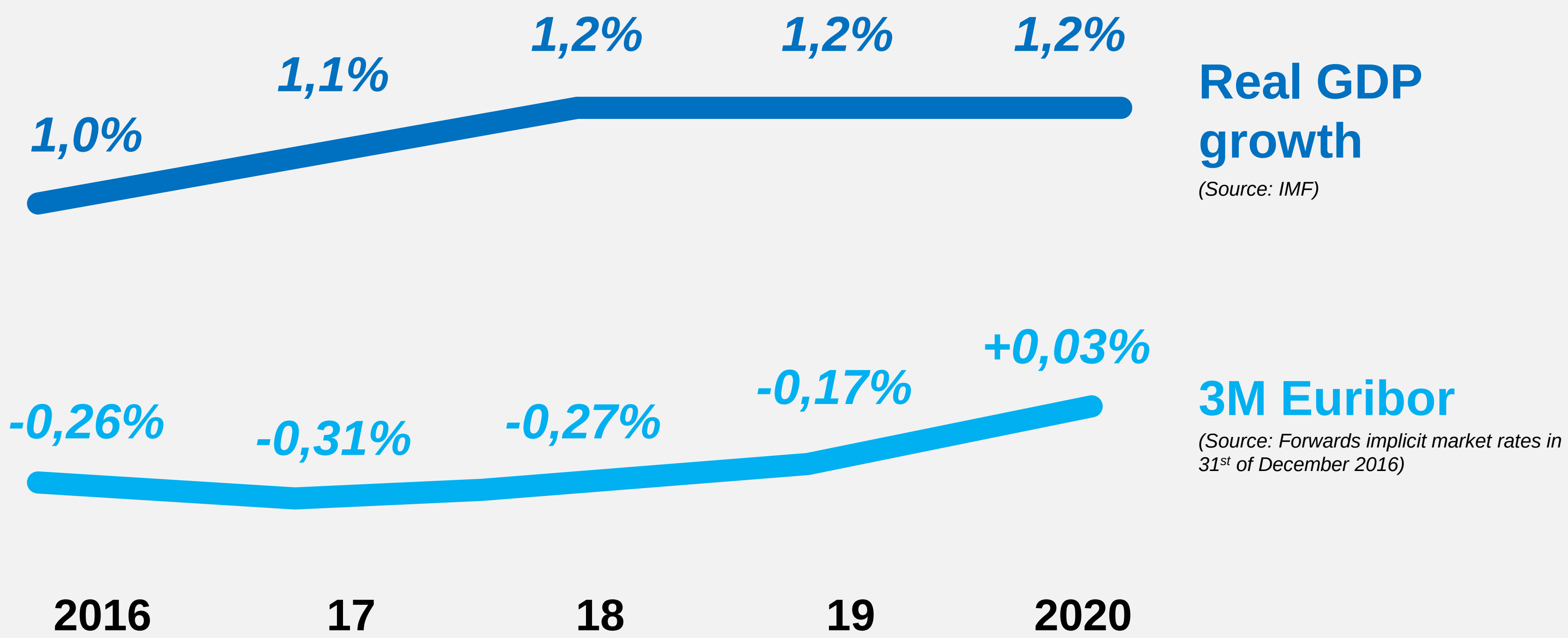
Pillars of CGD Strategic Plan 2020

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)

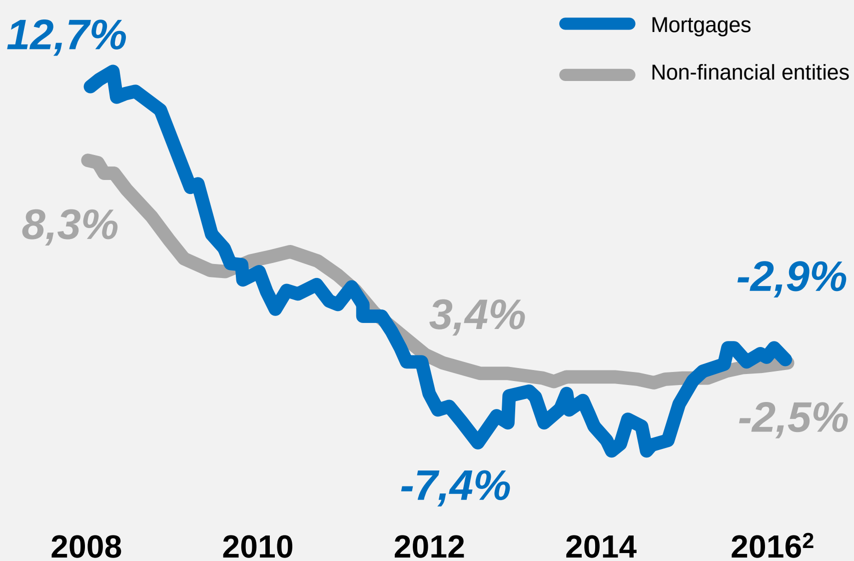
- **Efficiency**: Reduction of operating costs in ~20%
- **Prudency**: Cost of Risk < 0,6%
- **Resiliency**: CET1 ≥ 14%
- **Profitability**: RoE > 9%

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

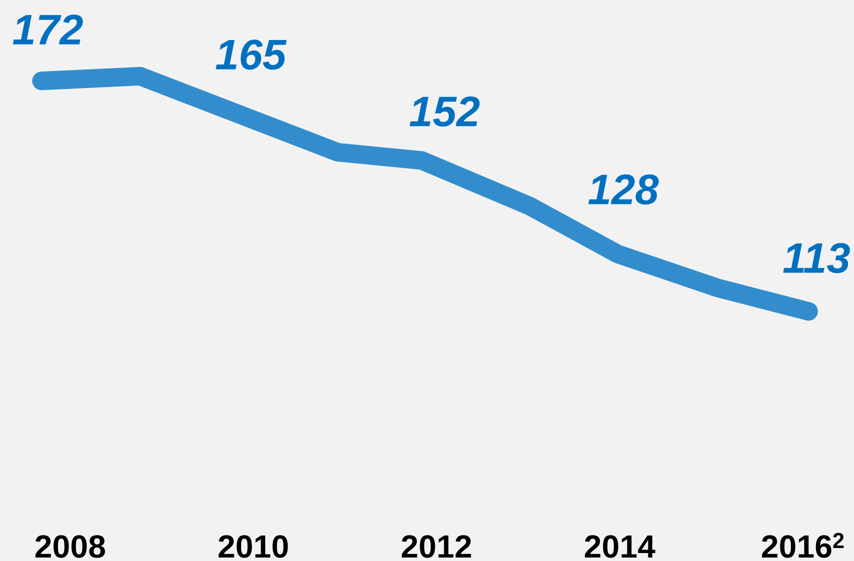


Portuguese banking sector deleveraging

Credit growth in Portugal adjusted from securitization
YoY% change

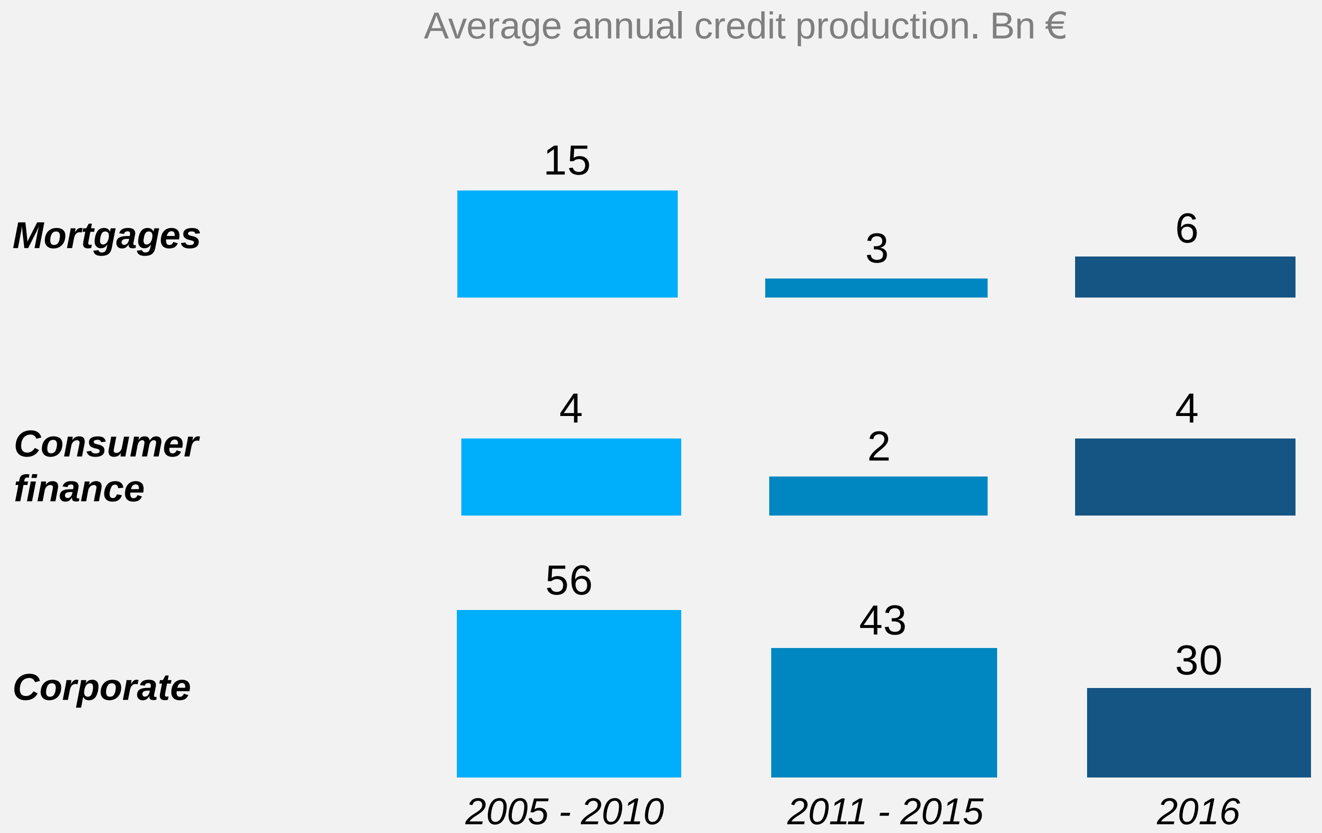


Loans-to-deposits ratio[1]
%



1 (Credit to clients and financial entities) / (Individuals deposits and non-financial entities)
2 August 2016
SOURCE Bank of Portugal, Portuguese Banking Association

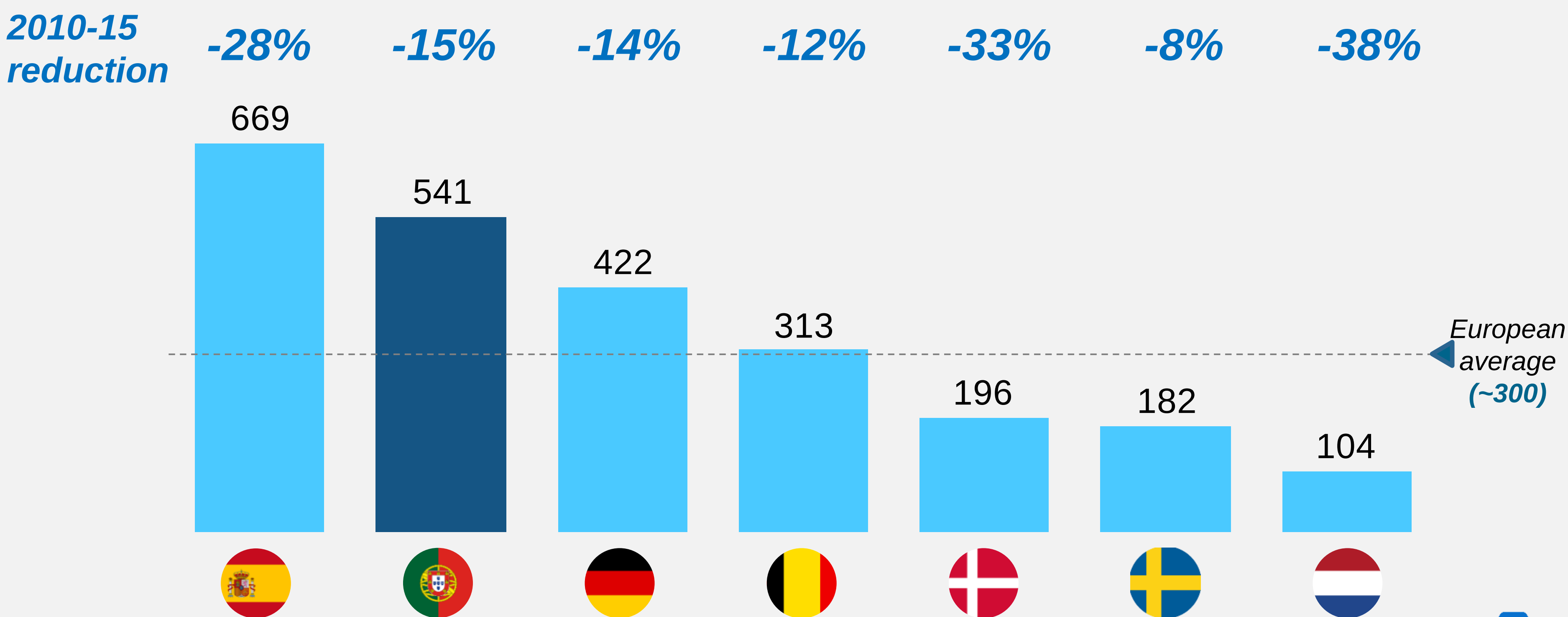
Banking market recovering, but still with moderate growth



SOURCE: Bank of Portugal

Physical distribution network in contraction

Branches per million inhabitants. 2015

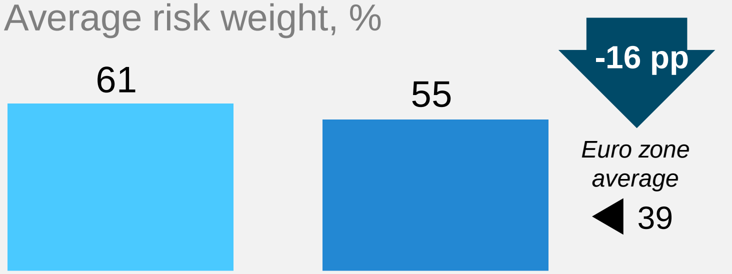


SOURCE: National banking associations

Priorities for the Portuguese banking sector

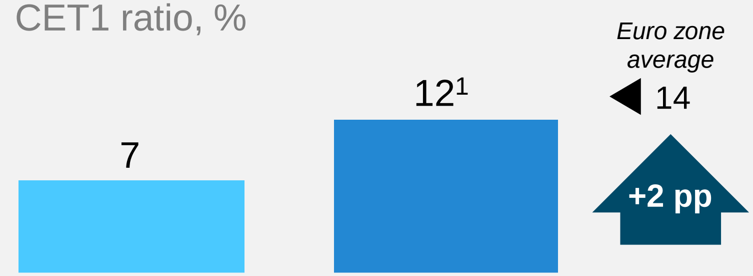
Reduce balance risk

Average risk weight, %



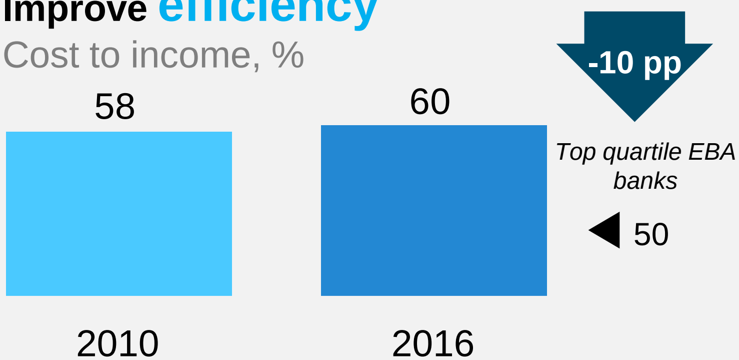
Strengthen capitalization

CET1 ratio, %



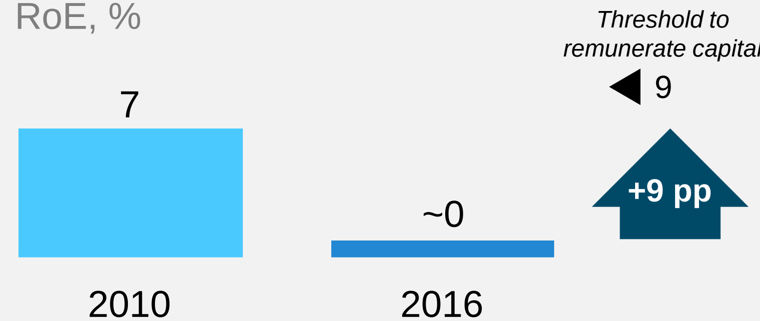
Improve efficiency

Cost to income, %



Recover profitability

RoE, %



1 June 2016

SOURCE: Portuguese Banking Association, Bank of Portugal

Recapitalization and new investors in the sector

2014

4,9 Bn€ (Resolution Fund, August)

2015

Banif acquisition (December)

2016

Launch (March)

Barclays acquisition (April)

2017

1,3 Bn€, and new shareholder (February)

CaixaBank acquisition (February)

CGD recapitalization

Key part for market consolidation

CGD Strategic Plan 2020: 4 pillars

1	2	3	4
Focus on economy	**Competitiveness**	**International coverage**	**Trust**
*Enhance **commercial franchises** (retail, SMEs, large corporates) to **ensure sustainability***	*Adjust **operational infrastructure** (distribution platforms, central areas) and **investment in human resources***	*Restructure the **international portfolio** as a complement to the domestic operation*	*Strengthen the Group **risk management model** and **governance** to improve balance sheet solvency and resilience*

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)

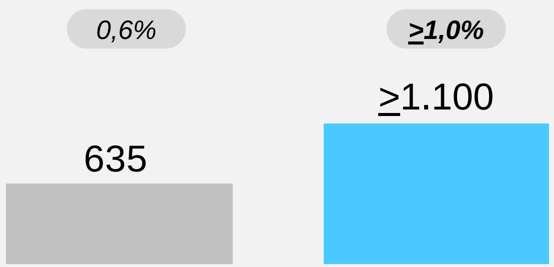
Optimize ***pricing models*** to ensure the return on invested capital

Commercial objectives defined in Strategic Plan 2020

xx % Net interest income / business volume

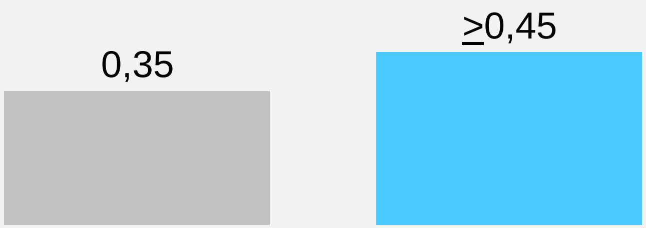
Net interest income

M€



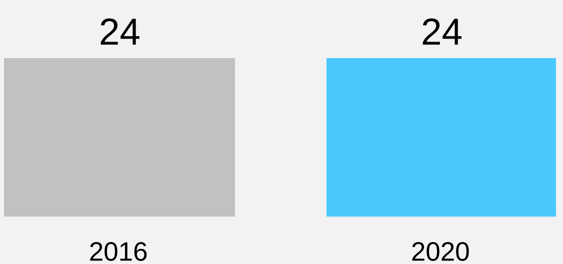
Fees/ business volume

%



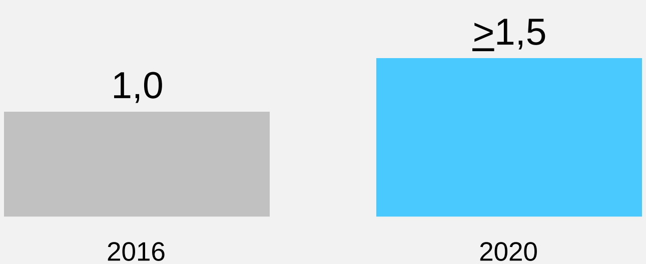
Market share (Deposits and credit)

%



Banking income/ business volume

%



Note: Figures presented for domestic perimeter

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)

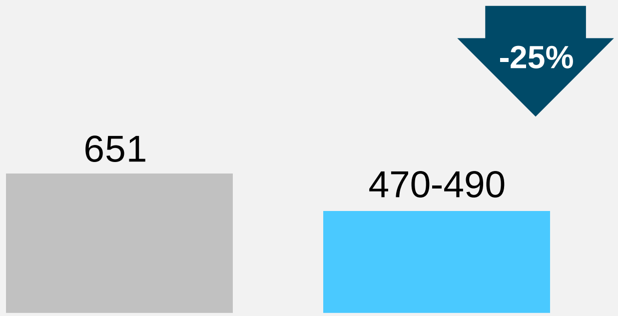
Re-sizing of ***central services*** – increase productivity and efficiency (digitalization)

Simplify structure and processes

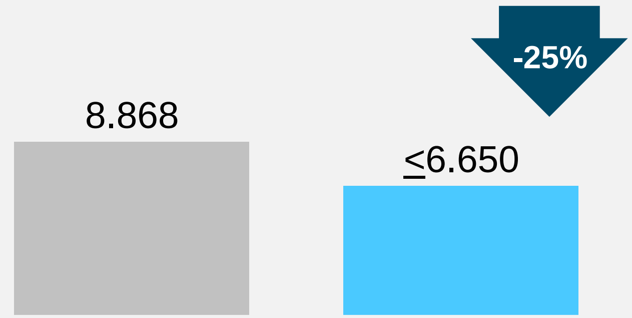
Renew training and development plans for ***talent***

Operational objectives defined in Strategic Plan 2020

Number of branches

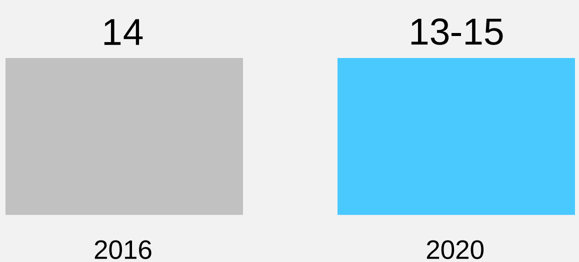


Number of FTEs



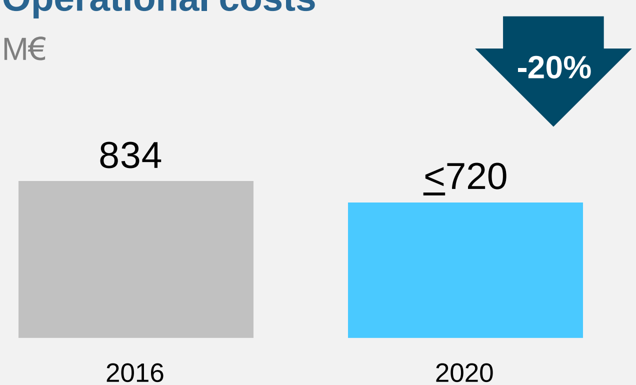
Branches market share

%



Operational costs

M€



Note: Figures presented for domestic perimeter

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

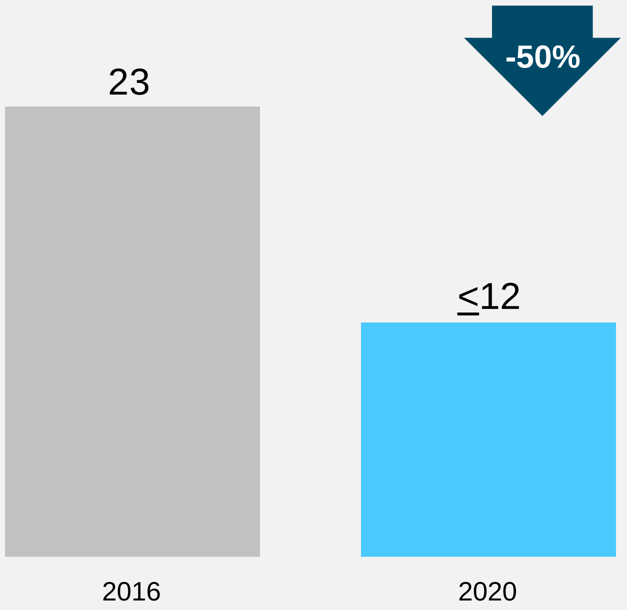
Strengthening ***governance*** – alignment with group strategy, risk policies and accountability for results

Divest or close ***non-core*** international operations

Strategic objectives for international operations

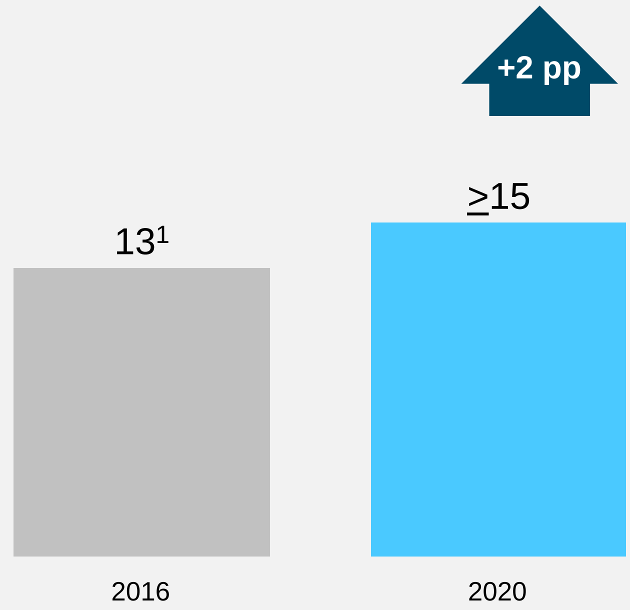
Assets (international)

Bn €



ROE (international)

%



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

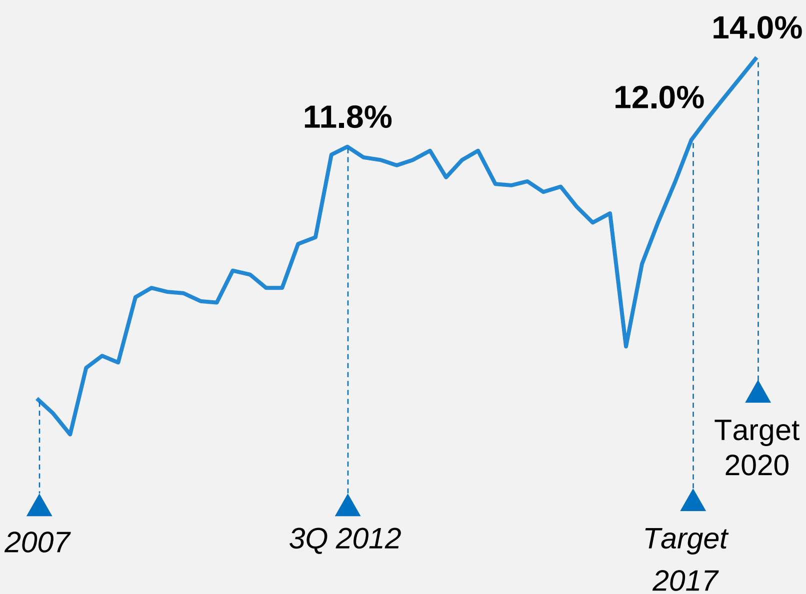
Reinforce ***internal control*** ("3 lines of defense" model)

Adjust ***risk management*** to highest standards of the industry (SREP)

New risk management model to protect capital

CGD CET1 ratio (phasing-in)[1]

%



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

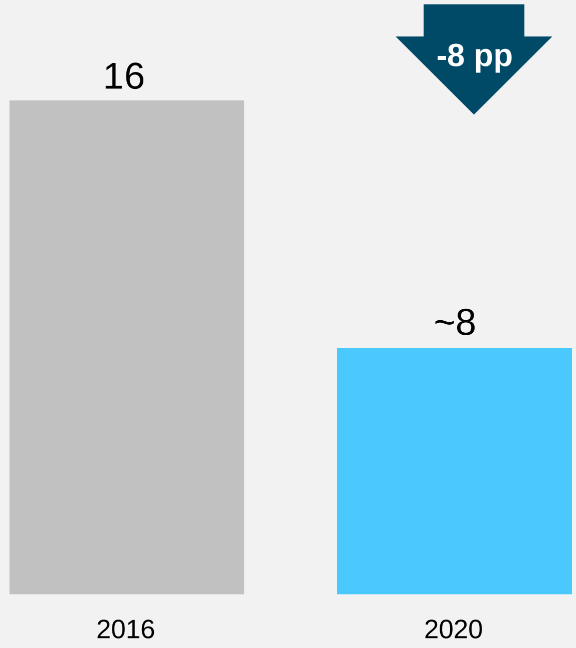
EBA **stress tests**

1 Common Equity Tier 1 for 2007-2014 period

Objectives for risk management

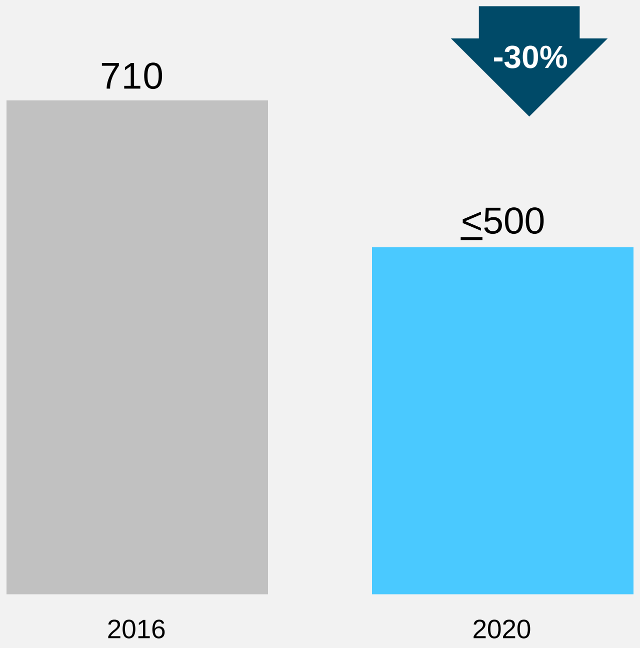
NPE ratio

%



Real estate[1] (net of impairments)

M€



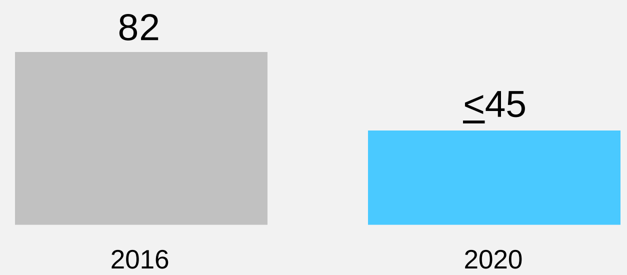
1 Foreclosure assets
Note: Figures presented for CGD S.A.

Strategic Plan guidance for a profitable and solid CGD

Efficiency

Cost-to-income (domestic)

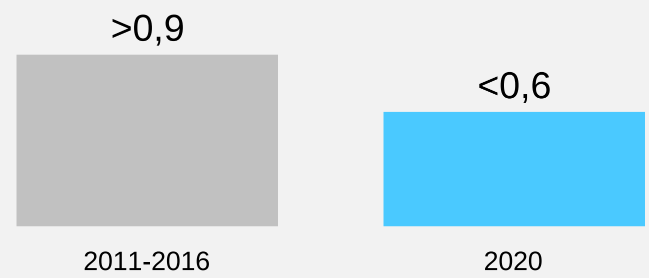
%



Prudency

Cost-of-risk (domestic)

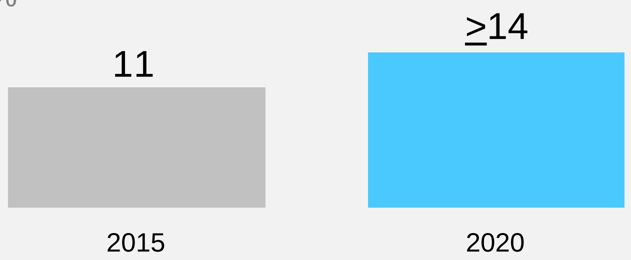
%



Resiliency

CET1 *phasing in* (consolidated)

%



Return

ROE (consolidated)

%

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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