



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

ECB-RESTRICTED

DIRECTORATE GENERAL MICROPRUDENTIAL SUPERVISION II

DIVISION 8

Mr. Álvaro José Barrigas do Nascimento, Chairman of the Board
Mr. José de Matos, Chairman of the Executive Committee
Caixa Geral de Depósitos, SA
Av. João XXI, 63
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Important supervisory considerations regarding the nomination and selection of new members of CGD's management body

Dear Mr. Nascimento and Mr. Matos,

The purpose of this letter is to highlight some important topics related to the process for nominating and selecting new Board members and Executives of Caixa Geral de Depósitos, S.A. ('CGD').

In a meeting on 31 May 2016 in Lisbon with the JST, Mr. Matos expressed concern about the current situation where there is a potential risk that the Executive Committee will not be able to effectively manage the bank and its subsidiaries because the mandates of all of the members of the Board of Directors expired simultaneously in December 2015 and two Executive members of the acting Board of Directors have resigned. The recent resignations leave the Executive Committee with only four members which is the minimum number for a quorum. Moreover, in the General Assembly on 25 May 2016, the current members of CGD's Board of Directors made a statement expressing concern about the delay and the uncertainty around the process for appointing new Board members and Executive managers.

We are also concerned that the bank is in a potentially dangerous situation due to lack of strategic direction and leadership. Although we have not received fit and proper applications for any candidate(s), the Portuguese media has already begun reporting on the possible composition of the new Board of Directors and management team for CGD. In that regard, we emphasise the following concepts:

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60640 Frankfurt am Main
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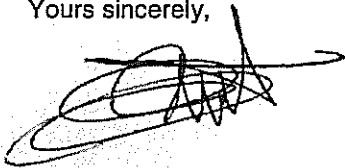
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- A formal succession plan should be implemented to ensure that the mandates of all members of the Board and management do not (again) expire at the same time. In keeping with best practices, the terms of office of the Board members should be staggered, as already foreseen in CGD's by laws. This would avoid a repeat of the current situation where the mandates of all of the members of the Board of Directors expired simultaneously in December 2015.
- Regarding the size of the Board, a high number of Board members can hamper interactive discussions. The SSM expects that the Board's size does not affect negatively its functioning. In this regard, we would discourage CGD from having more than 15 members.
- International standards and best practices, as also reflected in Article 88 (1)(e) of CRDIV, make it clear that the roles of Chairman of the Board of Directors and Chief Executive Officer ('CEO') should not be combined in one person.
- In our view, the government should consider how it will ensure that its interests, as the owner of the bank, are represented in CGD's Board of Directors. The importance of this issue is illustrated by the recent situation where the shareholder has not always responded promptly or thoroughly to strategic and supervisory issues and questions impacting the bank (for example, succession planning and capital planning).
- Considering the size and complexity of the bank, its weakened financial condition, and the governance and supervisory issues that need to be addressed, the Board of Directors and new management team should have experience, knowledge and a successful track record in the following areas: (i) cost cutting and streamlining; (ii) reducing a high level of non-performing assets; (iii) correcting and preventing regulatory and internal control breaches; (iv) strengthening and improving the control functions; (v) collaborating and interacting effectively amongst Executive and non-Executive elements of the Board of Directors including the Audit Commission and Risk Commission; (vi) managing and effectively controlling a wide international network; (vii) and ensuring the bank has sound IT systems.
- The criteria above are of key importance for the executive members, while the non-executive members of the Board should be free of conflicts of interest of any kind and should have banking skills and other relevant experience to effectively challenge, approve and oversee management's implementation of the bank's strategic objectives, governance and corporate culture.

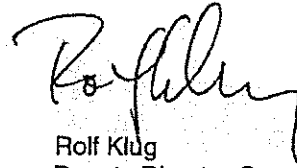
Finally, due to the significant uncertainties surrounding a recapitalisation of the bank by the government (state aid considerations, fiscal concerns), CGD needs to urgently develop and present to ECB an alternative plan for boosting its capital adequacy in case a government recapitalisation proves to be impractical.

We kindly ask you to provide a copy of this letter to the shareholder of the bank as soon as possible. Should you have any further question or requests, please contact the JST Coordinator in charge of the supervision of CGD.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Ramón Quintana', with a large, sweeping flourish extending to the right.

Ramón Quintana
Director General

A handwritten signature in black ink, appearing to be 'Rolf Klug', written in a cursive style.

Rolf Klug
Deputy Director General