Creditreform Bank Rating

Caixa Geral de Depositos S.A. (Group)

Creditreform Rating

Rating Object	Rating Information			
Caixa Geral de Depositos S.A. (Group)	Long Term Issuer Rating / Outlook: **BBB / stable**		Short Term: **L3**	Type: Update unsolicited
Creditreform ID: 400986055	Rating of Bank Capital and Unsecured Debt Instruments:			
Incorporation: 1876	Preferred Senior Unsecured: **BBB**	Non-Preferred Senior Unsecured: **BBB-**	Tier 2: **BB+**	Additional Tier 1: **BB**
(Main-) Industry: Banks	Rating Date:	**20 November 2020**		
Management: Paulo Moita de Macedo (CEO and Vice-Chairman of the Board of Directors)	Monitoring until:	withdrawal of the rating		
	Rating Methodology:	CRA "Bank Ratings v.2.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Rating Methodology Government Related Banks v2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"		
	Rating History:	www.creditreform-rating.de		

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Key Rating Driver

Strengths

+ Government-related bank with increased probability of support by the Portuguese State
+ Stability through the ownership of Portugal
+ Largest bank with a well-known brand and considerable market share in Portugal
+ Regained solid profitability

Weaknesses

- Relatively high RWA ratio
- Rundown of its business diversification

Opportunities / Threats

+ Increasing profitability and significant cost reduction accelerated through the "Strategic Plan 2020"

+/- Almost half of the bank's customer loans are mortgage loans

- High dependency on the economy in Portugal, which suffers a strong economic downturn following the Corona pandemic
- Relatively high amount of the banks credit portfolio are under guarantee and moratorium measures

Company Overview

Caixa Geral de Depósitos, S.A. (Group) - in the following: CGD, the Group or the Bank, is a wholly state-owned public liability limited company and the largest bank by assets in Portugal. CGD operates as a universal bank with a network of 551 branch offices (as of Q3-2020) in Portugal and, on a smaller scale, with some branches and subsidiaries abroad. With 12,150 employees (number of employees as of H1-2020) the Group serves approximately 3.7 million customers in Portugal and had total assets of €90.4 billion in June 2020.

In 2018, CGD completed its recapitalization plan (started in 2017), agreed between the European Commission and the Portuguese State in 2016. According to this plan, CGD increased its capital by about 3.9 billion EUR through recapitalization from the Portuguese State (2.5bn EUR in cash, 0.945bn EUR through conversion into capital of contingent convertible bonds, and about 500mn EUR through the transfer of equity shares of Parcaixa, SGPS, S.A. from the Portuguese State to CGD). There was an additional 1bn EUR increase from the private sector in the form of 500mn EUR AT1 issuance in 2017 and 500mn EUR of Tier 2 capital in 2018. However, according to the European Commission, CGD's recapitalization measures did not classify as State aid as the measures were in line with EU State aid rules and were carried out on market terms.
At that time, CGD's recapitalization plan was necessary due to a sizeable number of bad loans and a decreasing capital base as a result of the economic downturn in Portugal. Moreover, following a restructuring plan for the period 2013 to 2017 CGD accomplished a capital increase, which was considered, by the European Commission, to be state aid. This capital increase took place in June 2012, with part of the 0.75bn EUR issuance comprising new shares in addition to a 0.9bn EUR issuance of convertible bonds. Due to the aforementioned facts, we consider CGD as government-related bank in our analysis.

Currently, CGD is pursuing its "Strategic Plan 2020". According to this, CGD is, among other measures, down-sizing the number of its branches, restructuring its international operations to focus on its core markets, and is carrying out a reduction of its balance sheet risk by selling portfolios of non-performing loans.

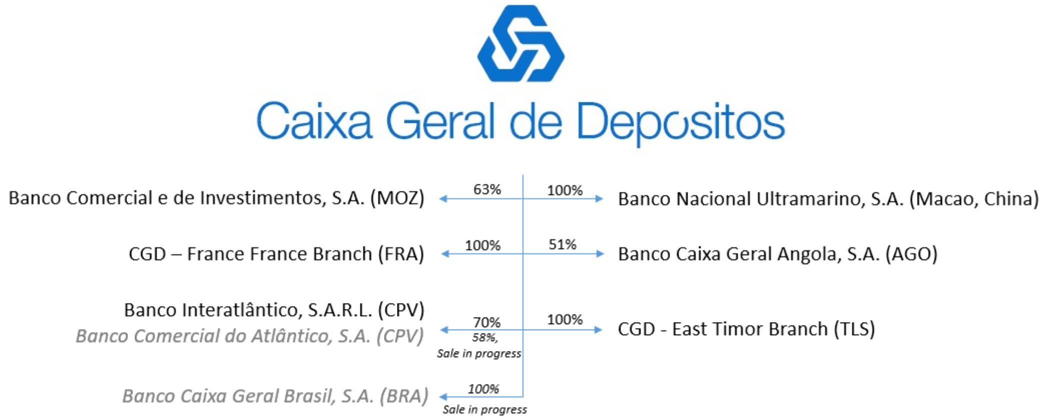
As a result of the strategic plan 2020, CGD has increased its profitability through significant cost cutting, and improved the quality of its assets by reducing its non-performing loans portfolio. In addition, CGD Group decreased the number of branches from 1,211 (in 2016) to 946 (in June 2020) and its workforce from 15,452 (in 2016; end of period) to 12,150 (in June 2020).

In 2019, CGD sold its subsidiaries Banco Caixa Geral, S.A. (Spain) and Mercantile Bank Holdings, Ltd. (South Africa). Due to the partial reversal of impairments related to both aforementioned subsidiaries CGD was able to record a non-recurring income of €157.1 million (€135.5mn related to BCG Spain and €21.6mn related to Mercantile

Bank Holdings Limited). However, the sale of Banco Caixa Geral Brasil, S.A. (BRA) and Banco Comercial do Atlântico, S.A. (CPV) is still in progress.

CGD's main banking subsidiaries as of 2019 can be found in Chart 1 below:

Chart 1: Main banking subsidiaries of CGD in 2019 | Source: Annual Report 2019 by CGD



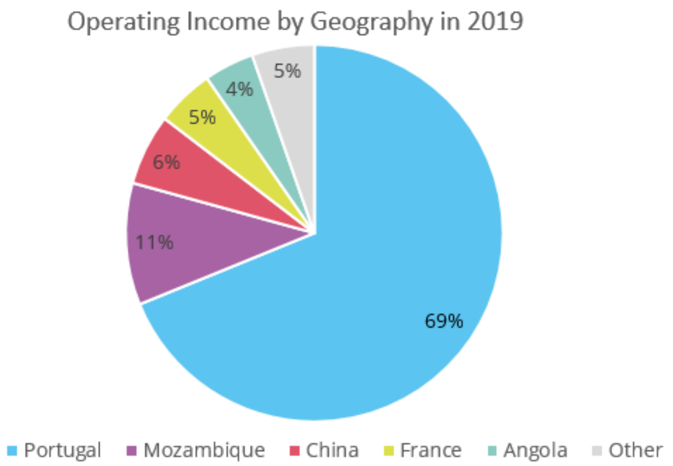
Business Development

Profitability

CGD's net profit amounted to €825.8 million in 2019, increasing by €286.3 million in a year-over-year comparison, primarily due to the reversal of impairment provisioned in 2017. Net interest income contributed approximately half to the operating income: however, due to the current low interest environment, CGD faces declining interest income, which was partially offset by reduced interest expense. In addition, a significant amount of early redemptions of credit by public entities lowered CGD's interest income as well. Net fee and commission income contributed about 24% to CGD's operating income, increasing continuously in recent years. Following the low interest income environment, CGB would clearly benefit from a higher operating income diversification (e.g. higher income from fees and commission). The increase in CGD's net trading income is primarily related to fair value gains of its debt instruments. In addition, the fluctuation of the net trading income item is primarily related to derivatives transactions in relation with interest hedges (e.g. in 2017). By contrast, CGD's equity accounted results (€43 million) are primarily related to the banks associated insurance company Fidelidade – Companhia de Seguros, S.A, in which CGD has a 15% participation and which contributed €30.5 million to CGD's Group result in 2019.

A detailed breakdown of CGD's operating income for 2019 by geography can be found in Chart 2 below:

Chart 2: Operating Income by Geography of CGD in 2019 | Source: Annual Report 2019 of CGD



With regard to operating expenses, CGD is able to reduce its costs continuously in recent years as a result of its strategic plan 2020. On one hand, the bank decreased its personnel expenses YOY (-4.3%) due to staff reduction (-606 YOY mostly in Portugal). On the other hand, CGD reported significant employee benefit provisions, which are a result of changed assumptions for the employee pension costs. Moreover, CGD's personnel expense are biased by non-recurring costs of about €50 million, which are related to early retirements and redundancy programs.

CGD's pre-impairment operating profit amounted to €984.8 million in the fiscal year 2019, increasing thereby by 4.8% year-over-year. However, CGD benefits extraordinary from significant reversal of loan impairments (€121.4 million) related to the year 2017. In addition, CGD reported reversal of impairments of other assets of about €25 million. Since the huge write-downs on customer loans in 2016 (due to the change in CGD's write-off policy), CGD steadily decreased its write-downs to a competitive level and even benefits from its prudent approach. After tax deductions and discontinued operations CGD achieved a net profit of about €825.8 million, by far its best result in this decade.

Considering the Corona pandemic impact and CGD's most recent results, the Bank reports a significant negative impact following the Corona crisis. As of its third quarter, CGD reports a net result of €392 million (Q3-2019: €641 million, €481 million without one-offs), however; this amount includes an extraordinary gain of €51 million (after tax) arising from actuarial gains in liabilities with post-employment benefits. Thus, leaving out the various one-offs, CGD reports a decline of its net result by about 29% (€342 million in Q3-2020 vs. €481 million Q3-2019). The drop in CGD's net result is primarily due to impairments and provisions in relation with the Corona pandemic with a total volume of about €220 million as of the third quarter 2020. The cost of risk of CGD are as of half-year 2020 at about 33bp (without loans and advances to credit institutions and governments) and are at the lowest quantile in our peer group comparison. Moreover, CGD reports a decline of its net interest income of about €76 million, mostly due the low interest rate environment and a high level of early loans repayments by public entities in 2019. However, the negative development was partially offset by reduced staff costs following the Group's restructuring program (-€48 million). Nevertheless, CGD is up to now to a lesser extent negative effected by the Corona pandemic than most of the peer group bank's. We expect a significant positive net result at year-end 2020 for CGD. However, the final impact is still highly uncertain.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	1.039.612	1.241.059	1.199.942	-3,0	1.163.553
Net Fee & Commission Income	449.850	464.862	480.089	+4,5	501.902
Net Insurance Income	-	-	-	-	-
Net Trading Income	50.796	215.779	90.702	+31,6	119.386
Equity Accounted Results	47.480	24.688	52.281	-17,5	43.121
Dividends from Equity Instruments	51.373	46.383	-	-	-
Other Income	-168.187	46.741	254.159	+9,5	278.393
Operating Income	**1.470.923**	**2.039.511**	**2.077.174**	**+1,4**	**2.106.355**
Expenses (€000)					
Depreciation and Amortisation	480.325	89.226	59.902	+57,3	94.255
Personnel Expense	661.377	658.936	609.781	-4,3	583.373
Tech & Communications Expense	98.037	89.733	79.375	+5,0	83.370
Marketing and Promotion Expense	23.376	18.584	16.006	-4,6	15.268
Other Provisions	227.552	203.407	-113.700	-80,2	-22.489
Other Expense	294.454	249.273	485.851	-24,3	367.714
Operating Expense	**1.785.121**	**1.309.159**	**1.137.215**	**-1,4**	**1.121.491**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**-314.198**	**730.352**	**939.959**	**+4,8**	**984.864**
Asset Writedowns	2.382.828	521.354	146.399	< -100	-150.040
Net Income (€000)					
Non-Recurring Income	35.298	83.601	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**-2.661.728**	**292.598**	**793.560**	**+43,0**	**1.134.905**
Income Tax Expense	-836.557	215.823	306.742	+8,2	332.045
Discontinued Operations	-	-	52.745	-56,4	22.973
Net Profit (€000)	**-1.825.171**	**76.775**	**539.564**	**+53,1**	**825.832**
Attributable to minority interest (non-controlling interest)	34.351	24.829	43.788	+14,0	49.904
Attributable to owners of the parent	-1.859.523	51.946	495.776	+56,5	775.928

Due to the strong increase in CGD's net profit in general and in particular in 2019, the Bank's earnings figures improved significantly in comparison to the previous year. The figures for ROA, ROE and RORWA – before and after taxes - improved noticeably in comparison to the previous year and are now clearly more favorable than the figures of the peer group. Moreover, the Bank's reduction of its operating costs in recent years improved its cost-to-income ratio as well as its cost-to-income ratio excluding trading (following its strategic plan 2020), distinctly. With both mentioned cost to income ratios CGD reached a sound level is now clearly ahead of its competitors. Only CGD's net interest margin deteriorated year-over-year and is just in line with the average of the peer group.

Overall, CGD's key earnings figures are the best performers in any of the areas analyzed and proof the banks regained impressive profitability. However, CGD's earnings figures are partially boosted by various one-offs (reversal of loan impairments and reversal of employee benefit provisions).

Considering the Corona pandemic impact and the results of the bank as of the third quarter 2020, we expect a significant decrease of CGD's profitability following the strong increase in impairments and provisions. However, as of now, CGD is to a lesser extent affected than other peer group bank's and benefit from its ongoing cost reductions following its strategic plan 2020.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	121,36	64,19	54,75	-1,50	53,24
Cost Income Ratio ex. Trading (CIRex)	125,70	71,78	57,25	-0,81	56,44
Return on Assets (ROA)	-1,95	0,08	0,61	+0,36	0,96
Return on Equity (ROE)	-47,01	0,93	6,51	+3,13	9,64
Return on Assets before Taxes (ROAbT)	-2,85	0,31	0,89	+0,43	1,32
Return on Equity before Taxes (ROEbT)	-68,55	3,54	9,58	+3,67	13,25
Return on Risk-Weighted Assets (RORWA)	-3,32	0,15	1,11	+0,75	1,87
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-4,84	0,56	1,64	+0,93	2,57
Net Interest Margin (NIM)	1,29	1,83	1,68	-0,05	1,62
Pre-Impairment Operating Profit / Assets	-0,34	0,78	1,06	+0,09	1,15
Cost of Funds (COF)	1,65	1,45	1,18	-0,24	0,94
Change in %-Points					

Asset Situation and Asset Quality

CGD's financial assets accounted for 92% of total assets in 2019, increasing by 2.7% in a year-over-year comparison (€2 billion). Net loans to customers represent CGD's major asset, accounting for 56% of total assets and decreasing by about 3.5 billion year-over-year. The decrease is mainly a result of the reduction in general government loans (€-2.5 billion), loans to companies (€-1 billion) and mortgage loans (€-0.8 billion) and is affected by NPL sales/write-offs and significant credit repayments by public entities. Accumulated impairments represent about 4.5% (€2.15 billion) of the Bank's customer loans.

CGD's total securities increased year-over-year by €4 billion and consist mainly out of debt securities issued by public issuers with about €16.7 billion in 2019. The most significant sovereign exposure is related to Portugal with about €9 billion. However, about 2 billion of sovereign exposure is related to Africa. The balance sheet item of non-current assets & discontinued operations in 2018 represents primarily CGD's subsidiaries (Banco Caixa Geral, S.A. and Mercantile Bank Holdings, Ltd.), which were sold in 2019 following the banks strategy 2020.

Considering the Corona pandemic impact and the bank's third quarter 2020 results, the Bank increased its business activities. Following the increased liquidity needs of its customer the bank was able to report a growth of its customer loans in Portugal of about 9.8% (considers gross loans to corporates, excluding construction and real estate sector in CGD Portugal). In addition the bank is increased its cash position as a result of the participation in the ECB's TLTRO III funding program with about €1 billion.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets| Source: eValueRate / CRA

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	2.598.285	5.319.593	6.620.833	+18,1	7.817.287
Net Loans to Banks	3.217.797	3.028.694	1.980.640	+25,2	2.479.017
Net Loans to Customers	63.100.967	55.254.981	51.674.353	-6,9	48.108.300
Total Securities	12.667.096	13.556.244	14.438.063	+27,9	18.459.482
Total Derivative Assets	1.519.408	971.122	698.229	+23,6	863.245
Other Financial Assets	1.405.195	1.283.902	1.493.971	-17,1	1.238.632
Financial Assets	**84.508.749**	**79.414.536**	**76.906.090**	**+2,7**	**78.965.963**
Equity Accounted Investments	312.338	414.717	388.544	+18,8	461.719
Other Investments	978.263	897.818	809.963	-77,1	185.666
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	1.426.072	6.756.508	6.213.217	-78,5	1.333.471
Tangible and Intangible Assets	692.681	669.289	509.444	+29,4	659.214
Tax Assets	2.587.563	2.322.692	2.152.315	-13,1	1.869.753
Total Other Assets	3.041.647	2.772.355	2.111.845	+8,9	2.300.274
Total Assets	**93.547.313**	**93.247.914**	**89.091.418**	**-3,7**	**85.776.060**

CGD's asset quality improved significantly in recent years; however, the Bank still has to catch up to its peers, in particular with regard to its non-performing loans ratio (calculated from 2018 on as stage 3 loans over net loans to customers). CGD has significantly improved its non-performing loans ratio in recent years through write-offs and NPL portfolio sales. The increase from 2017 to 2018 is related to the technical change in the NPL ratio calculation. Despite the sound progress in reducing the NPL portfolio, CGD's NPL ratio of 5.6% is still clearly less favorable than the peer group on average.

Moreover, through the reversal of impairments in 2019, CGD outperforms the peer-group average in this regard and benefits from the large and prudent impairments in the previous years. CGD still reports a relatively high risk weighted asset ratio of 51.5%, which represents the Bank's riskier business activities. A further reduction of the banks volume of risk-weighted assets would enable CGD to catch up to its peer group and would thereby de-risk its asset portfolio.

Up to now, the Corona pandemic impact on the banks asset quality is limited. CGD's NPL decreased to 4.2% (as of Q3-2020). However, the bank and its customer benefit from various guarantee and moratorium measures. About 13% of CGD's credit portfolio are affected by these measures. Thus, we expect a decline in CGD's asset quality following the run out of these guarantee and moratorium measures. However, the specific impact is highly uncertain.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

Figure 4: Development of asset quality| Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	67,45	59,26	58,00	-1,92	56,09
Risk-weighted Assets/ Assets	58,81	55,96	54,35	-2,83	51,51
NPLs*/ Net Loans to Customers	10,50	9,10	9,88	-4,28	5,60
NPLs*/ Risk-weighted Assets	12,04	9,63	10,54	-4,45	6,10
Potential Problem Loans**/ Net Loans to Customers	4,81	4,09	9,15	-0,17	8,98
Reserves/ NPLs*	85,01	90,65	65,36	+14,39	79,76
Reserves/ Net Loans	8,93	8,25	6,46	-1,99	4,47
Net Write-offs/ Net Loans	3,78	0,94	0,28	-0,60	-0,31
Net Write-offs/ Risk-weighted Assets	4,33	1,00	0,30	-0,64	-0,34
Net Write-offs/ Total Assets	2,55	0,56	0,16	-0,34	-0,17
Change in %-Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing and Capital Quality

CGD's financial liabilities accounted for 96% of its total liabilities in 2019, increasing by 1.5% year-over-year (€.1 billion). Deposits from customers represent by far the main funding source of the Group, representing 85% of the Group's liabilities, and increasing YOY by about 3.7% (€2.4 billion). The increase is primarily related to increased demand deposits of the banks domestic customers (€2.6 billion) and shows the banks sound market shares in its home market. By contrast, CGD's total debt consists primarily of subordinated debt securities and covered bonds (€2.29 billion), which were the driver of the decrease in total debt. Thus signaling a shift of CGD refinancing activities towards customer deposits. CGD's equity increased following as a result of partially retained earnings of the year.

Considering the Corona pandemic impact and the bank's third quarter 2020 results, the Bank took part in the ECB's TLTRO III operations with about €1 billion at a very favorable rate (-0.5%). In addition, the bank increased its customer deposits to about €70.4 billion (as of Q3-2020).

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

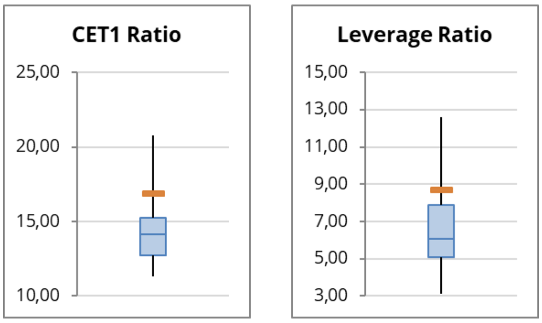
Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	5.799.712	4.042.850	1.703.340	-36,7	1.077.668
Total Deposits from Customers	69.680.130	63.630.896	63.422.525	+3,7	65.791.555
Total Debt	7.534.147	5.965.543	5.421.389	-13,9	4.669.033
Derivative Liabilities	1.697.678	1.065.798	741.508	+23,0	911.820
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	2.058.859	1.269.754	1.573.309	-2,5	1.533.439
Total Financial Liabilities	**86.770.526**	**75.974.841**	**72.862.071**	**+1,5**	**73.983.516**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	693.369	5.783.829	5.396.454	-81,8	980.711
Tax Liabilities	241.829	308.308	227.795	-29,6	160.415
Provisions	1.127.312	1.288.291	1.115.900	-6,4	1.044.440
Total Other Liabilities	831.436	1.618.329	1.203.752	-13,5	1.040.971
Total Liabilities	**89.664.472**	**84.973.598**	**80.805.972**	**-4,5**	**77.210.053**
Total Equity	**3.882.841**	**8.274.316**	**8.285.445**	**+3,4**	**8.566.007**
Total Liabilities and Equity	**93.547.313**	**93.247.914**	**89.091.418**	**-3,7**	**85.776.060**

CGD's regulatory capital ratios increased strongly over the past years due to the aforementioned recapitalization plan and recently following the retained earnings in 2019 following the ECB recommendation of no dividend payment in 2020. Moreover, CGD regulatory capital ratios benefits from the banks reduction of its volume of risk weighted assets to €44.2 billion from €48.4 billion. With a CET1 ratio of 16.9% and a Total Capital ratio of 19.5% at year-end 2019, CGD's ratios are now more favorable than the one of the peer group on average (both figures include net profit of the year 2019). The boxplots in figure 6 display CGD's capital position in comparison to the peer group. With any of its regulatory capital ratios, CGD comfortably exceeds its regulatory requirements of 2020 (CET1: 9.02%, Tier 1: 10.94% and Total Capital: 13.5%).

Moreover, with its total equity to total assets ratio (9.9%), as well as its leverage ratio (8.7%), CGD exceeds the average of its peers (see figure 6). In addition, CGD issued at year-end 2019 its first non-preferred senior unsecured bond in the amount of €500 million to strengthen its MREL position.

Figure 6: Boxplots of the CET1 and Leverage ratio analysis | Source: eValueRate / CRA



Overall, CGD has achieved sound capitalization after a prolonged tumultuous period.

As of Q3-2020, CGD was even able to increase its regulatory capital ratios significantly. With a CET1 ratio of 17.2% and a Total Capital ratio of 19.8%, the bank clearly meets all regulatory requirements and benefits from decreased risk-weighted assets. In addition, these ratios are clearly more favorable than the peer groups average and show an adequate capital buffer for adverse effects.

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 7 below:

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	4,15	8,87	9,30	+0,69	9,99
Leverage Ratio	3,30	8,20	7,70	+1,00	8,70
Common Equity Tier 1 Ratio (CET1)	5,50	13,90	14,20	+2,70	16,90
Tier 1 Ratio (CET1 + AT1)	5,50	14,90	15,20	+2,90	18,10
Total Capital Ratio (CET1 + AT1 + T2)	5,72	15,20	16,60	+2,90	19,50
CET1 Capital Requirements	5,13	8,25	8,88	+0,87	9,75
Change in %- Points					

Due to CGD's bank capital and debt structure, the Group's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, CGD's non-preferred senior unsecured debt has been notched down by one notch. However, CGD's Tier 2 capital rating is two notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology and represents an up-notch by one notch following the increased CET1 buffer. Additional Tier 1 capital is rated three notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution and is up-notched as well.

Liquidity

CGD's liquidity situation is sufficient. The Group reports a liquidity coverage ratio of 331%, which has sustainably improved in recent years and which is clearly more favorable than the average of the peer group. In addition, the Group reports a sound Net Stable Funding ratio of about 156%. Moreover, CGD's comfortably exceeds the regulatory requirements regarding both liquidity ratios.

The customer deposits to total funding ratio shows the Group's stable and favorable source of funding - the deposits of its customers. However, considering the negative interest rate for deposits at the ECB, CGD has to be aware of the negative impact of excess liquidity. Moreover, the Group relies more on customer deposits as source of funding than its competitors on average, which results in more favorable funding conditions. In addition, the bank's LTD ratio of about 73% shows that the Bank's customer deposits are currently more than sufficient to fund its customer loans with sufficient leeway for the bank. Moreover, the TLTRO III funding of about €1 billion increases the Group's liquidity situation.

Up to now, we do not expect any liquidity issues at CGD and the whole banking sector.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 8 below.

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	90,56	86,84	81,48	-8,35	73,12
Interbank Ratio	55,48	74,91	116,28	+113,76	230,04
Liquidity Coverage Ratio	175,60	208,90	234,60	+96,50	331,10
Customer Deposits / Total Funding (excl. Derivates)	79,21	75,83	79,21	+7,02	86,23
Net Stable Funding Ratio (NSFR)	134,10	139,40	148,90	+7,10	156,00

Change in %- Points

Environmental, Social and Governance (ESG) Score Card

CGD has one significant and two moderate ESG rating drivers.

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the corporate governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated neutral due to CGD's low ESG related financing activities while the bank has already implemented diverse ESG related policies. In addition, the bank is still in the process of overcoming the difficult years of the past.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to the lack of significant ESG related financing activities, whereas Corporate Behaviour is rated positive due its business activities in accordance with the ideas and beliefs of the society.

ESG Score

3,5 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	2	( )
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Overall, CGD accomplished a turnaround in its performance since 2018 and reported a successful year 2019. Profitability and capitalization reached sufficient levels after the difficult and tumultuous years. In addition, the bank reached and adequate level with regard to its asset quality. As a result of the close relationship to the Portuguese State, which is outlined in the company overview chapter, we consider the bank as government-related. The affirmation of the rating follows primarily the affirmation of the Portuguese State (CRA Rating as of September 2020: BBB/stable). However, the current environment is characterized by a high degree of uncertainty following the Corona pandemic. Thus, the Group faces a challenging fiscal year 2020.

Despite the low-interest environment in Europe, CGD was able to improve its profitability again, not least because of the economic upturn in its core market Portugal in 2019. With a net profit of 825 million in 2019, CGD achieved by far its best result in a decade, thereby overcoming a period of significant losses. This positive development is attributable to the Group's good progress in cost reductions and downsizing its exposure to non-performing assets. All of the Group's earnings figures are now clearly above the peer-group average. According to the Group's third quarter 2020 report, CGD is adverse affected by Corona pandemic through increased impairments and loan loss provisions, however, the impact is limited in comparison to other European bank. Nevertheless, CGD will likely report a significant decline of its profitability in 2020.

The asset quality of CGD improved significantly over the recent years and reached and adequate level. CGD was successful in reducing its high volume of legacy NPL. Moreover, the Group benefited even from significant write-backs. Moreover, the Group's high risk-weighted assets ratio shows a relatively high risk appetite on the part of the bank. In addition, the Corona pandemic bears a significant risk for the bank. A decrease of the asset quality is likely as a result of the economic downturn in Portugal. Additional risk may arise, when the diverse guarantee and moratorium measures run out.

The Bank's funding is characterized by its relatively high amount of deposits, which are significantly increasing in 2020. CGD's uses covered bonds and unsecured funding to a significantly lower extent. The finalization of the recapitalization plan through capital injections by the Portuguese State enabled CGD to reach a satisfactory capital position. In addition, the Bank successfully issued its first non-preferred senior unsecured bond (€ 500 million) in 2019 with exclusively institutional investors to meet its MREL requirements. According to the Bank's third quarter 20202 report, CGD increased its absorption capacity by increasing its CET1 ratio to an outstanding level with 17.2%.

Overall, the impact of the Corona pandemic bears a high risk for the Group next to the still challenging low interest rate environment. In addition, we see a high dependency of CGD on the well-being of its core market Portugal, especially after the ongoing disposal of some subsidiaries abroad. Moreover, we see a close relationship between CGD and its sole shareholder Portugal (CRA rating: BBB/stable from 18.09.2020). However, the upcoming development is characterized by a high level of uncertainty.

Outlook

We consider the outlook of Caixa Geral de Depositos S.A.'s (Group) long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the bank will overcome the impact of the Corona pandemic and the following economic downturn in the short run. In particular, the ownership of Portugal as the sole shareholder has a stabilizing effect which rating was affirmed at BBB/stable in September 2020. However, we will observe how the bank will deal with the Corona pandemic effects on the economy, as the final impact is still uncertain. In addition, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the banks markets of operations.

Scenario Analysis

Best-case scenario: A-

Worst-case scenario: BB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an "A-" rating in the "best case" scenario and an "BB" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. All of the mentioned ratings are especially sensitive to changes in the rating of the Portuguese State next to changes in the bank's total equity and in the bank capital and debt structure in general.

We might upgrade CGD's long-term issuer credit rating and its bank capital and debt instruments if we see and upgrade of the rating of the Portuguese State. In addition, the release of the current loan loss provisions and regained solid earnings figures next to significant improvement of the bank's capital ratios might lead to an upgrade as well.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a lowering of the rating of the Portuguese State. In addition a lasting decline of CGD's profitability and / or a reduction of the banks' capital ratios might lead to a downgrade as well. In particular, we will observe the ongoing Corona pandemic impact on CGD's asset quality and its business activities in general.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **BBB / stable / L3**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **BBB**
Non-Preferred Senior Unsecured Debt (NPS): **BBB-**
Tier 2 (T2): **BB+**
Additional Tier 1 (AT1): **BB**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 9: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	29.11.2019	BBB / stable / L3
Monitoring	29.05.2020	BBB / watch unknown / L3
Rating Update	20.11.2020	BBB / stable / L3
Bank Capital and Debt Instruments	**Rating Date**	**Result**
PSU / NPS / T2 / AT1 (Initial)	29.11.2019	BBB / BBB- / BB / BB-
PSU / NPS / T2 / AT1 (watch unknown)	29.05.2020	BBB / BBB- / BB / BB-
PSU / NPS / T2 / AT1	20.11.2020	BBB / BBB- / BB+ / BB

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	Yes
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 43 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0), the methodology for the rating of Government-Related Banks (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 20 November 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Caixa Geral de Depositos S.A. (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of Caixa Geral de Depositos S.A. (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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