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:	Short Term:
Creditreform ID: 400986055	**BBB / stable**	**L3**
Management: Paulo Moita de Macedo (CEO and Vice-Chairman of the Board of Directors)	Type: Update / Unsolicited	
Rating Date: **17 December 2021**	Rating of Bank Capital and Unsecured Debt Instruments:	
Monitoring until: withdrawal of the rating	Preferred Senior Unsecured:	**BBB**
Rating Methodology: CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Government-Related Banks v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"	Non-Preferred Senior Unsecured:	**BBB-**
	Tier 2:	**BB+**
Rating History: www.creditreform-rating.de	Additional Tier 1:	**BB**

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Key Rating Driver

+ Government-related bank with increased probability of support by the Portuguese State (CRA Rating: BBB/stable as of 10.09.2021). In addition, stability through the ownership of Portugal
+ Largest bank with a well-known brand and considerable market shares in Portugal
+ Solid profitability promoted by significant cost reduction following the successful completion of the "Strategic Plan 2020"
+ Sound capitalization and large buffer to the regulatory requirements

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

- High dependency on the economy in Portugal, which suffered a strong economic downturn following the Corona pandemic.
- Rundown of its business diversification following the bank's strategy
- Low-interest policy of the ECB puts significant pressure on profitability
- Run out of credit moratoria bears significant challenge due to the relatively high amount of loans and advances subject to moratorium
- Elevated RWA ratio despite significant reductions over the past years

Executive Summary

Creditreform Rating affirms the long-term issuer rating of Caixa Geral de Depositos S.A. (Group) at BBB with a stable outlook. Key rating driver is our consideration of the bank as government-related. We assume therefore an increased probability of support by the government of Portugal (CRA Rating: BBB/stable as of 10.09.2021) in the event of financial distress in addition to the overall high dependency of CGD's business activities on the wellbeing of the Portuguese economy. Moreover, the bank records a sound capitalization in addition to its regained solid profitability following the successful implementation of its "Strategic Plan 2020".

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 543 branch offices (as of Q3-2021) in Portugal and, on a smaller scale, with some branches and subsidiaries abroad. With 11,633 employees (number of employees as of H1-2021) the Group serves approximately 3.7 million customers in Portugal and had total assets of €103.5 billion in Q3-2021.

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 and the exclusive state-owned Portuguese ownership, we consider CGD as government-related bank in our analysis.

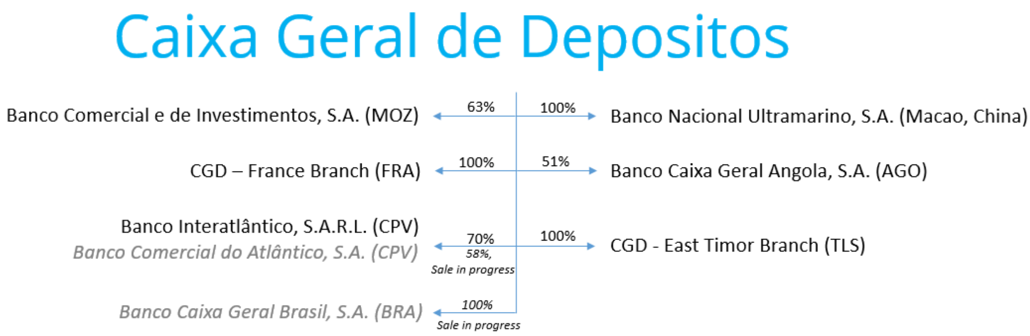
CGD has completed its "Strategic Plan 2017-2020". According to this plan, CGD targeted, among other measures, down-sizing the number of its branches, restructuring its international operations to focus on its core markets, and is carrying out a reduction of its balance sheet risk by selling portfolios 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 931 (in June 2021) and its workforce from 15,452 (in 2016; end of period) to 11,633 (in June 2021). By completing the strategy plan, the European Commission's Directorate-General for Competition announced the end of the process of monitoring the CGD strategic plan in April 2021.

In 2021, CGD introduced a new Sustainability Strategy for the period 2021-2024, aiming to be the Portuguese market leader within the scope of sustainable finance, further supporting the transition toward a low-carbon economy and funding projects with a social impact on communities. Key goals are among others net zero financed emissions by 2050 (in operations & supply chains by 2030), €2bn ESG financing by 2025, ≥33.3% of each gender on the board of directors by 2021.

Most relevant recent changes in the Group structure were as follows: 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 2020 can be found in Chart 1 below:

Chart 1: Main banking subsidiaries of CGD in 2020 | Source: Annual Report 2020 and H1-21 Report by CGD

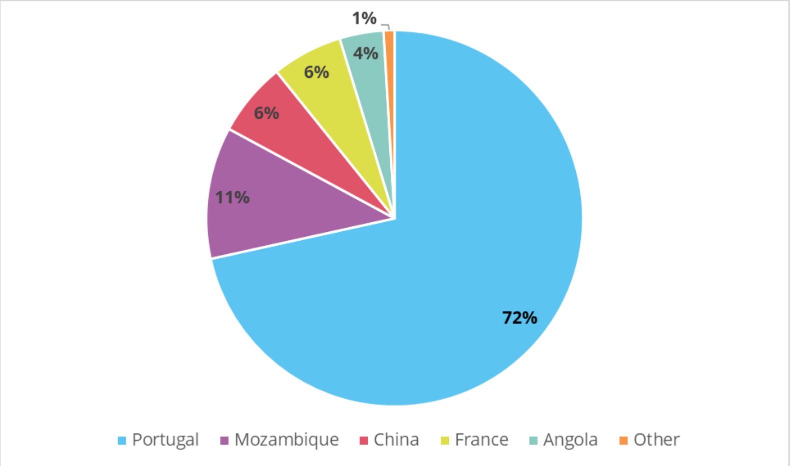


Business Development

Profitability

CGD's operating income decreased in a year-over-year comparison driven by lower interest income and lower net trading income in addition to lower gains on non-financial assets. See Chart 2 for the breakdown of CGD's operating income by geography.

Chart 2: Operating Income by Geography of CGD in 2020 | Source: Annual Report 2020 of CGD



Net interest income as the major source of income lowered YOY significantly. Like other banks in Europe, CGD is struggling with the low interest rate environment, which puts significant pressure on the bank's main income source. CGD was thereby only partially able to counteract the negative development by reduced interest expense. In addition, a significant amount of early redemptions of credit by public entities in 2019 already lowered CGD's interest income as well. According to the bank's interim reports in 2021, CGD faces a further significant decline of its net interest income in particular at its domestic business activities.

Net fee and commission income as the second largest source of income remained at a stable level, which means that the positive trend of the past few years has weakened. While CGD was able to increase its net fee and commission income in the domestic business level by €11mn (higher insurance and investment funds), this development was compensated by lower income at the international activities. Overall, about 84.5% of CGD's net fee and commission income is related to the bank's domestic business activities. According to the bank's interim reports in 2021, CGD is able to increase its net fee income by about 10% in 2021. Following the low interest rate environment, CGB would clearly benefit from a higher operating income diversification (e.g. higher income from fees and commission).

The decrease in CGD's net trading income is primarily related the negative development of the bank's foreign exchange operations, which were negatively affected by the Corona pandemic (in contrast to fair value gains of debt instruments in 2019). However, in 2021, a strong increase of the bank's net trading income is expected (as of Q3-21: €140mn already) driven by extraordinary gains due to the recovery of financial assets (€47mn). By contrast, CGD's equity accounted results 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 €33.6 million to CGD's Group result in 2020.

With regard to operating expenses, CGD is able to achieve a strong and continuous cost reduction in recent years as a result of its strategic plan 2020. The bank decreased its personnel expenses due to the significant reduction of its staff (number of employees at half-year end of 2021: 11,592 vs. year-end of 2020: 11,757 vs. year-end of 2018: 14,000) over the recent years. The item of personnel expense contains non-recurring costs of €72.1 million for early retirement and voluntary redundancy program and a positive impact of €70.7 million in respect of the actuarial gains in liabilities for post-employment benefits. The exclusion of these non-recurring impacts, which balanced each other, would have resulted in a 6.1% reduction of employee costs. Moreover, CGD reduced its item of other expense significantly, which is a result of numerous insignificant items and losses of non-financial assets being the most relevant with a reduction of €31.6mn YOY. Most significant item in this position are the bank's contribution to the resolution fund of €28mn in 2020. In 2021, a further reduction of the bank's other expense item can be expected following CGD's interim reports.

CGB's pre-impairment operating profit lowered following the drop in operating income, which could not be counteracted by reduced operating expense. The impairments on financial assets of about €180 million (thereof €166mn on customer loan) following the Corona pandemic burdened the bank's result. However, the cost of risk (own calculation: customer loan impairment in relation to the bank's net customer loans) of about 34bp (-10bp in 2019 due to reversals) remained on a reasonable level, in particular in comparison to other large banks in Europe. In 2021, CGD is likely to achieve significant lower cost of risk according to its interim reports. As a result, the bank would achieve a very competitive cost of risk level in comparison to other large European banks.

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

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

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	1.044	-10,2	1.164	1.200	1.241
Net Fee & Commission Income	497	+0,1	497	480	465
Net Insurance Income	-	-	-	-	-
Net Trading Income	50	-58,2	119	91	216
Equity Accounted Results	44	+1,8	43	52	25
Dividends from Equity Instruments	-	-	-	-	46
Other Income	138	-49,5	273	254	47
Operating Income	**1.773**	**-15,4**	**2.096**	**2.077**	**2.040**
Expense					
Depreciation and Amortisation	96	+1,7	94	60	89
Personnel Expense	502	-14,0	583	610	659
Tech & Communications Expense	77	-7,1	83	79	90
Marketing and Promotion Expense	12	-21,8	15	16	19
Other Provisions	-26	+16,2	-22	-114	203
Other Expense	251	-29,6	357	486	249
Operating Expense	**912**	**-17,9**	**1.111**	**1.137**	**1.309**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**861**	**-12,6**	**985**	**940**	**730**
Asset Writedowns	180	< -100	-150	146	521
Net Income					
Non-Recurring Income	-	-	-	-	84
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**681**	**-40,0**	**1.135**	**794**	**293**
Income Tax Expense	174	-47,5	332	307	216
Discontinued Operations	16	-29,1	23	53	-
Net Profit	**523**	**-36,7**	**826**	**540**	**77**
Attributable to minority interest (non-controlling interest)	32	-36,9	50	44	25
Attributable to owners of the parent	492	-36,6	776	496	52

CGD's intrinsic profitability, which is indicated by the bank's cost to income ratio (CIR), remained at a satisfying level and proof the banks regained sound profitability. As trading income does not have a significant impact, the bank's cost to income ratio excl. trading is in line with the bank's CIR. We expect no worsening in this regard in the long run, in particular following the bank's cost cutting and employee redundancy measures.

The values for ROA, ROE and RORWA before and after taxes worsened in a year-over-year comparison following the increased loan impairments due to the Corona pandemic and the lower operating income. However, this development is in line with other large European banks. Still, CGD reached decent earnings figures. CGD's net financial margin lowered to an only average level, which indicates the ongoing pressure on margins respectively interest rates.
Considering the development in 2021, we expect no significant changes of the profitability figures in the short run (excl. extraordinary effects). However, CGD suffers under the low interest rate environment, which puts significant pressure on the banks profitability figures. The cost cutting measures are only partially able to counteract the negative trend of the operating income. In addition, the release of the bank's loan loss impairments of 2020 following the Corona pandemic might have a non-recurring positive impact on CGD's earnings. Overall, CGD's profitability figures are on a moderate level in 2020 and likely in 2021 as well, after the impressive figures of 2019.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

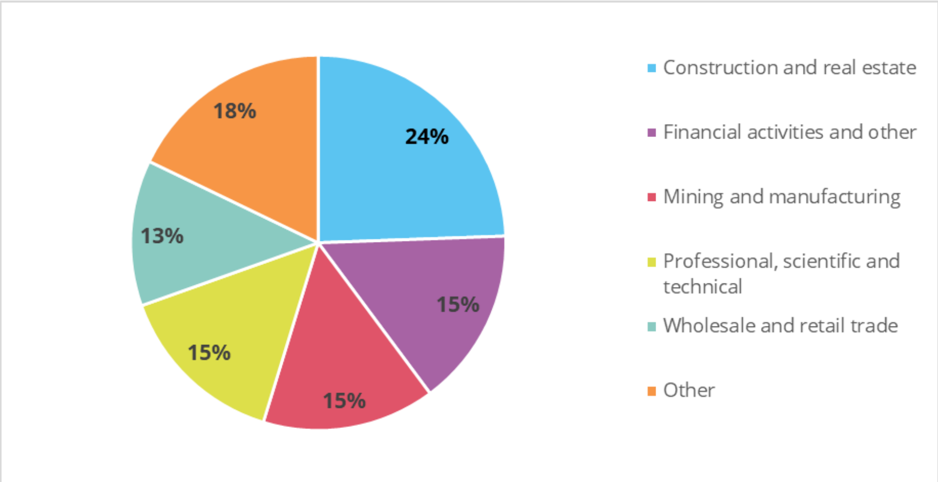
Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	51,44	-1,56	53,00	54,75	64,19
Cost Income Ratio ex. Trading (CIRex)	52,93	-3,27	56,21	57,25	71,78
Return on Assets (ROA)	0,57	-0,39	0,96	0,61	0,08
Return on Equity (ROE)	6,01	-3,63	9,64	6,51	0,93
Return on Assets before Taxes (ROAbT)	0,75	-0,58	1,32	0,89	0,31
Return on Equity before Taxes (ROEbT)	7,83	-5,42	13,25	9,58	3,54
Return on Risk-Weighted Assets (RORWA)	1,25	-0,62	1,87	1,11	0,15
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,63	-0,94	2,57	1,64	0,56
Net Interest Margin (NIM)	1,29	-0,34	1,62	1,68	1,83
Pre-Impairment Operating Profit / Assets	0,94	-0,21	1,15	1,06	0,78
Cost of Funds (COF)	0,57	-0,37	0,94	1,18	1,45
Change in %- Points					

Asset Situation and Asset Quality

Net loans to customers represent the largest share of assets and remain at the same level YOY. However, as of the Q3-21 report, CGD denotes an increase by about €1.6bn. As of year-end 2020, CGD's customer loan book consists primarily of mortgage loans (€25.9 billion gross), loans to companies (€18.7 billion gross) and general government loans (€3.1 billion gross). Accumulated impairments represent about 4.5% (€2.245 billion) of the Bank's customer loans. See Chart 3 for the breakdown of CGD's loans and advances to corporates as of June 2021.

Chart 3: Loans and advances to corporates of CGD as of June 2021 | Source: Half-year report 2021 of CGD



As a result of the Corona pandemic, CGD granted about €8.1bn (of which €7.6bn legislative moratoria; as of June 2021) of loans and advances which are subject to moratorium measures. About €5.5bn of these loans mature in the period from June to September 2021. With the run out of all government support measures a significant risk might arise. Overall, CGD's loan book is diversified by customers and industries but is geographically highly concentrated in Portugal.

CGD's total securities as the second largest financial assets increased year-over-year by 16.9% and consist mainly out of debt securities issued by public issuers with about €19.9 billion. The most significant sovereign debt exposure is related to Portugal (CRA Rating: BBB/stable as of 10.09.2021) with about €7.9 billion. The balance sheet item of non-current assets & discontinued operations in 2020 represents primarily CGD's subsidiaries BCG Brazil, Banco Comercial do Atlântico, S.A. and CGD Investimentos CVC, which sale is still in progress.
CGD's cash position increased significantly YOY, representing now the bank's third largest asset. As of Q3-21, CGD even further increased its cash position to about €22.3 billion partially as a result of additional funding due to the ECB's TLTRO III program to a total volume of €5.8 billion (€1 billion at year-end 2020). Although this program enables very favorable rates if conditions are met, CGD's huge cash position indicates difficulties in finding appropriate investment opportunities. Following that, the bank has to be aware of negative deposit rates.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

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

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	10.972	+40,4	7.817	6.621	5.320
Net Loans to Banks	2.329	-6,0	2.479	1.981	3.029
Net Loans to Customers	48.017	-0,2	48.108	51.674	55.255
Total Securities	21.568	+16,9	18.449	14.438	13.556
Total Derivative Assets	894	+3,5	863	698	971
Other Financial Assets	1.179	-5,6	1.249	1.494	1.284
Financial Assets	**84.959**	**+7,6**	**78.966**	**76.906**	**79.415**
Equity Accounted Investments	505	+9,4	462	389	415
Other Investments	189	+1,7	186	810	898
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	1.159	-13,1	1.333	6.213	6.757
Tangible and Intangible Assets	681	+3,3	659	509	669
Tax Assets	1.751	-6,4	1.870	2.152	2.323
Total Other Assets	2.132	-7,3	2.300	2.112	2.772
Total Assets	**91.375**	**+6,5**	**85.776**	**89.091**	**93.248**

CGD's asset quality improved significantly in recent years; however, the Bank still shows elevated figures, in particular with regard to its non-performing loans ratio (own calculation: stage 3 loans over net loans to customers) and its potential problem loan ratio (own calculation: stage 2 loans over net loans to customer). CGD has significantly improved its non-performing loans ratio in recent years through write-offs and NPL portfolio sales. Despite the sound progress in reducing the NPL portfolio, CGD's NPL ratio of 4.79% is still at a slightly elevated level. However, following the bank's continuous reduction of its NPL, CGD will likely reach a reasonable level, as the interim reports 2021 already indicate. However, the bank's stage 2 loan exposure, which indicates potential problem loans and upcoming risk, in particular after the run-out of all government support measures as a shift from potential problem loans to non-performing loans becomes more likely. However, the specific impact is highly uncertain. The reserves to NPL ratio of 97% at year-end 2020 is at a very high level and shows a

very prudent approach. As of June 2021, CGD maintains its prudent approach in this regard. As a result, CGD is likely to benefit from reversal of impairments as in previous years.
As of now, one of the most significant impacts of the Corona pandemic is evident through the increased net write-offs / RWA ratio as well as the net-write-offs to total assets ratio, which increased to a slightly elevated level, however, this development is in line with other large European banks. The background of this development are the significant loan loss provisions primarily on customer loans due to the Corona pandemic. However, CGD's write-off figures are still at decent level in comparison to other large European banks. In addition, CGD will likely at least maintain this level in 2021 as indicated by the bank's interim reports in 2021.
CGD still reports an elevated risk weighted asset ratio of 45.7%, 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. Following the over-proportional increase of the bank's total assets (partially due to the TLTRO III participation), CGD is likely to achieve a further reduction of its RWA ratio in 2021 (which is at 41.1% as of H1-21).

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

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

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	52,55	-3,54	56,09	58,00	59,26
Risk-weighted Assets/ Assets	45,77	-5,75	51,51	54,35	55,94
NPLs*/ Net Loans to Customers	4,79	-0,81	5,60	9,88	9,10
NPLs*/ Risk-weighted Assets	5,50	-0,60	6,10	10,54	9,63
Potential Problem Loans**/ Net Loans to Customers	8,36	-0,62	8,98	9,15	4,09
Reserves/ NPLs*	97,69	+17,94	79,76	65,36	90,65
Reserves/ Net Loans	4,68	+0,21	4,47	6,46	8,25
Net Write-offs/ Net Loans	0,37	+0,69	-0,31	0,28	0,94
Net Write-offs/ Risk-weighted Assets	0,43	+0,77	-0,34	0,30	1,00
Net Write-offs/ Total Assets	0,20	+0,37	-0,17	0,16	0,56
Level 3 Assets/ Total Assets	1,39	-10,41	11,80	13,74	2,42
Change in %- Points					

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

Refinancing, Capital Quality and Liquidity

Deposits from customers represent by far the main funding source of the Group, representing 87% of the Group's liabilities, and increasing YOY by about 9.5% (€6.2 billion) and as of Q3-21 to about €77.8 billion. The increase follows the increased liquidity position of customers primarily as a result of the Corona pandemic. In particular, the Group attracts massive demand deposits (51% of customer deposits), while the term and savings deposits remained at a stable level (46% of customer deposits). However, despite the very favorable financing from customer deposits, the bank faces a liquidity risk if its customers draw down its deposits, which is however an unlikely scenario. Overall, about 87% of the customer deposits are related to the banks domestic customers, which shows the banks high market shares in its home market.

By contrast, CGD's total debt consists primarily of subordinated debt securities (€1.1 billion) and covered bonds (€1.25 billion), which were the driver of the decrease in total debt (repayment covered bonds). Thus, signaling a further shift of CGD's refinancing activities towards customer deposits in addition to the refinancing operations by the ECB (TLTRO III participation of €1bn in 2020 and as of Q3-21 of €5.8bn). As a result of the ECB refinancing, CGD's liabilities to bank's increase accordingly but enable refinancing at very favorable rates (up to -1%) if conditions are met. CGD's equity increased following as a result of retained earnings of the year, which was partially offset by foreign currency differences and by actuarial gains in post-employment benefits liabilities.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

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

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	2.040	+89,3	1.078	1.703	4.043
Total Deposits from Customers	72.033	+9,5	65.792	63.423	63.631
Total Debt	3.576	-23,4	4.669	5.421	5.966
Derivative Liabilities	978	+7,2	912	742	1.066
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	1.337	-12,8	1.533	1.573	1.270
Total Financial Liabilities	**79.965**	**+8,1**	**73.984**	**72.862**	**75.975**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	864	-11,9	981	5.396	5.784
Tax Liabilities	139	-13,2	160	228	308
Provisions	1.037	-0,7	1.044	1.116	1.288
Total Other Liabilities	669	-35,7	1.041	1.204	1.618
Total Liabilities	**82.675**	**+7,1**	**77.210**	**80.806**	**84.974**
Total Equity	**8.701**	**+1,6**	**8.566**	**8.285**	**8.274**
Total Liabilities and Equity	**91.375**	**+6,5**	**85.776**	**89.091**	**93.248**

CGD's regulatory capital ratios increased strongly over the past years due to the aforementioned recapitalization plan and more recently following the retained earnings. The increase of the regulatory capital ratios of CGD can be explained on one hand by increased own funds mainly due to profit retention, which was mitigated by exchange rate differences. On the other hand, CGD's regulatory capital figures benefitted from significant RWA reduction of about €2.5 billion following regulatory effects and risk reductions. As a result, CGD's CET1 ratio of 18.2% and a Total Capital ratio of 20.9% at year-end 2020 are at the higher end in comparison to other large European banks and on a remarkable level. With any of its regulatory capital ratios, CGD comfortably exceeds its regulatory requirements of 2021 (CET1: 9.02%, Tier 1: 10.94% and Total Capital: 13.5%) with a considerable buffer. According to the bank's interim reports 2021, CGD is able to maintain its sound level of capitalization despite a slight increase of the risk-weighted assets.

Moreover, with its total equity to total assets ratio (9.5%), as well as its leverage ratio (8.7%), CGD exceeds most of its European competitors clearly and shows sufficient capital for the absorption of adverse effects. The lowering of the mentioned ratios in 2021 is more of technical nature than a risk, as the bank significantly increased its

liquid assets. Moreover, CGD estimated a need to issue approximately €2 billion in eligible liabilities in the form of preferred / non-preferred senior debt by the end of 2023, together with the non-preferred senior debt issuance of €500 million (in 2019) and the preferred senior unsecured issuance of €500 million (in 2021; first sustainable bond in Portugal) to fulfil its MREL requirements.
Overall, CGD has achieved sound capitalization after a prolonged tumultuous period and achieved its capital figures to be the best performers in any of the areas analyzed.

CGD's liquidity situation is sufficient. The Group reports a liquidity coverage ratio of 449%, which has sustainably improved in recent years and which is clearly at the higher end in comparison to other large European banks. In addition, the Group reports a sound Net Stable Funding ratio of about 173%. Moreover, CGD's comfortably exceeds the regulatory requirements with both liquidity ratios clearly.

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 favorable funding conditions. In addition, the bank's LTD ratio of about 66% shows that the Bank's customer deposits are currently more than sufficient to fund its customer loans. However, the decrease in this ratio over the recent years shows a decreasing demand for the bank's loans. Moreover, the TLTRO III funding of about €5.8 billion (as of Q3-21) increases the Group's liquidity situation.

Up to now, we do not perceive any liquidity issues at CGD and the whole banking sector in general in particular due to the significant government support measures.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	9,52	-0,46	9,99	9,30	8,87
Leverage Ratio	8,70	+0,00	8,70	7,70	8,20
Common Equity Tier 1 Ratio (CET1)*	18,20	+2,10	16,10	13,50	13,90
Tier 1 Ratio (CET1 + AT1)*	19,40	+2,10	17,30	14,50	14,90
Total Capital Ratio (CET1 + AT1 + T2)*	20,90	+2,20	18,70	15,80	15,20
SREP Capital Requirements	9,02	-0,73	9,75	8,88	8,25
Net Loans/ Deposits (LTD)	66,66	-6,46	73,12	81,48	86,84
Interbank Ratio	114,16	-115,88	230,04	116,28	74,91
Liquidity Coverage Ratio	449,00	+117,90	331,10	234,60	208,90
Customer Deposits / Total Funding (excl. Derivates)	88,17	+1,94	86,23	79,21	75,83
Net Stable Funding Ratio (NSFR)	173,00	+17,00	156,00	148,90	139,40
Change in %- Points					

*Fully loaded figures whenever available.

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.

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 positive (upgrade from neutral) due to CGD's increasing ESG related financing activities in addition to the implemented diverse ESG related policies. Moreover, the bank overcome the difficult years of the past and successfully implemented its strategy 2017-2020, while CGD achieved a sustainable and solid performance level.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to the relatively low green financing activities, which however are increasing. In addition, CGD issued its first green bond in 2021. Whereas Corporate Behaviour is rated positive due the bank’s business activities in accordance with the ideas and beliefs of the society.

ESG Score

3,7 / 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 2021	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 Environmental 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 positive 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 successfully completed its strategy 2017-2020 and accomplished a sustainable turnaround with regard to its earning figures, the asset quality and the capitalization. In addition, the Corona pandemic had an only minor impact on the bank's business activities. 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. We assume therefore support by the government of Portugal in the event of financial distress in addition to the overall dependency of the bank on the wellbeing of the Portuguese economy, which is CGD's major market. The affirmation of the rating follows primarily the affirmation of the rating of the Portuguese State (CRA Rating as of September 2021: BBB/stable).

CGD performed quite well in 2020, despite the challenges caused by the Corona pandemic. The positive development of the bank's performance and in particular its intrinsic profitability is attributable to the Group's good progress in cost reductions and in downsizing its exposure to non-performing assets. CGD's net result decreased YOY, due to significant impairment charges (in line with other large European banks), which might reverse in the following years as a result of the quick recovery of the economy. The bank struggles with the low interest rate environment, which leads to decreasing operating income and low margins.

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 bank follows a prudent approach with regard to its provisions and reserves for its non-performing loans. However, with the run out of all government support measures, the bank's asset quality might deteriorate in the upcoming periods, as a shift from potential problems loans to non-performing loans gets more likely. Considering the bank's debt securities holding, the major share of these assets are related to the Portuguese State, which tightens the connection to the Portuguese economy. 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.

The Bank's funding is characterized by its relatively high amount of customer deposits, which significantly increased following the Corona pandemic and are primarily related to Portuguese customers. In addition, the ECB TLTRO III funding leads to a crowding out of refinancing by covered bond and unsecured debt instruments. However, the funding by the TLTRO III participation enables CGD to reduce its costs of funding. CGD's regulatory capital ratios increased significantly and are at now at a sound level with a large buffer to the SREP requirements. The liquidity situation of CGD remains sufficient.

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. In particular, the ownership of Portugal as the sole shareholder has a stabilizing effect, which rating was affirmed at BBB/stable in September 2021. In addition, we expect CGD to overcome the impact of the Corona pandemic, which will likely have an only minor impact on the bank in total. However, we will observe how the bank will deal with final effects of the pandemic on the economy, in particular after the run out of all government support measures. 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: BBB+

Worst-case scenario: BBB-

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 "BBB+" rating in the "best case" scenario and an "BBB-" 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. In particular, our consideration of CGD as government-related leads to the narrow scenario ratings due to the stability of the public owner.

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, a more significant geographical diversification while maintain at least its current level of performance 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 bank's capital ratios might lead to a downgrade as well. In particular, we will observe the impact of the ongoing Corona pandemic 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 7: 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
Rating Update	17.12.2021	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
PSU / NPS / T2 / AT1	17.12.2021	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	No
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.

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 (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0), the methodology for the rating of Government-Related Banks (v2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

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

On 17 December 2021, 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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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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