FitchRatings

Banks
Retail & Consumer Banks
Austria

Addiko Bank AG

Update

Key Rating Drivers

Addiko Bank AG's ratings reflect the bank's business profile as a specialised lender focused on unsecured lending to retail clients and small businesses in south eastern Europe (SEE), where economies are more volatile. The ratings also reflect the group's adequate risk profile, improving asset quality and earnings. Capitalisation, liquidity and funding are rating strengths.

The Stable Outlook on Addiko's Long-Term Issuer Default Rating (IDR) reflects Fitch Ratings' view that labour market indicators in Addiko's largest markets should remain resilient in the next two years despite slower economic growth. However, high inflation is likely to lead to a moderate increase in impaired loans and loan impairment charges (LICs). The latter are likely to be offset by higher lending margins due to rising interest rates.

Focus on SEE: Addiko operates in SEE, including in countries with more volatile and less advanced economies, as well as moderately developed banking sectors and capital markets. This is mitigated by limited geographic diversification across the region and a highly developed regulatory and legal framework in Austria, where the bank is headquartered and key corporate functions, including liquidity management, are centralised.

Niche Business Model: Our assessment of Addiko's business profile considers the group's small but growing franchise, which we believe has critical mass in all markets. It also reflects Addiko's positioning as a challenger, with clear unique selling points (speed and modern digital offering) affording the group some pricing power. The bank's business plan and strategy benefit from its knowledge of local markets and record in its key banking segments. Our assessment also reflects Addiko's small operations and a less diversified business model than larger peers.

Unsecured Lending: Addiko's risk profile is driven by its exposure to unsecured consumer and SME lending in SEE. We view the bank's underwriting criteria as in line with local industry practice. However, these have not yet been tested in a prolonged economic downturn.

Improving Asset Quality: Addiko's asset quality reflects its positive performance in recent years. Addiko had reduced its impaired loans ratio to 3.8% at end-2023 (end-2015: 25%) through portfolio sales and settlements. We expect the four-year average impaired loan ratio to remain close to 5% over the next two years. We expect LICs/gross loans to increase to 100bp–130bp in 2024, which is adequately covered by pre-impairment profit. LICs have remained below that level in the past five years and benefitted from loan loss allowance reversals in wind-down portfolios.

Weak but Improving Profitability: The bank's profitability is weak but improving due to its successful restructuring, supported by a solid record of cost management, lower LICs and improving net interest margins. Our assessment also reflects the bank's dependence on less diversified revenues from less stable operating environments and a potential, albeit limited, burden from additional provisions for legacy Swiss franc-denominated loans.

Solid Capitalisation: Addiko's capitalisation is a rating strength in light of its high risk-weight density, which translates into an above-average leverage ratio. Our assessment also reflects the bank's high and stable capital adequacy targets, and improving pre-impairment profitability.

Stable Deposits Underpin Funding: The bank is mainly funded by retail deposits, sourced locally. This is positive for our assessment of funding and liquidity, which is also supported by its healthy structural liquidity position. Addiko has no reliance on external wholesale funding. We view the bank's intention not to access the wholesale market in the medium term as credible given its liquidity buffer and established depositor base. Addiko's 'B' Short-Term IDR is the only option that maps to a 'BB' Long-Term IDR on Fitch's rating scale.

Ratings

Foreign Currency	
Long-Term IDR	BB
Short-Term IDR	B
Viability Rating	bb
Government Support Rating	ns
Sovereign Risk (Austria)	
Long-Term Foreign-Currency IDR	AA+
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Rates Addiko 'BB'; Outlook Stable (August 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would downgrade the ratings following substantial capital erosion, which could be caused by a materialisation of legal risks, from aggressive dividend distribution or from asset-quality deterioration (including materially larger write-offs).

In addition, we could downgrade the ratings if strategic objectives shift, growth acceleration results in a negative deviation from current underwriting standards and investment policies, or due to failure to maintain operating profit at least at 1.25% of risk-weighted assets (RWAs).

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require a record of operating profit close to 2.5% of RWAs, indicating a sustained strengthening of Addiko's business profile, while maintaining an impaired loans ratio at or below about 5% and a common equity Tier 1 ratio of close to 20%.

An upgrade could also result from a material improvement in the operating environment, as a result of a shift in business expansion towards markets Fitch considers more stable, notably Croatia or Slovenia.

Significant Changes from Last Review

Improving Profitability

Addiko's operating income and operating profit both increased in 2023, by 18% and 56%, respectively. This was primarily due to higher net interest income, driven by higher loan volumes and deposits repricing at a slower rate than the bank's loan book and liquidity holdings. Addiko's reported net interest margin therefore increased to 3.8% in 2023 (2022: 3%). Fee and commission income declined slightly, mainly driven by lost FX business from Croatia following the introduction of the euro in January 2023. Operating expenses increased 6.3%, mainly due to inflation and costs for the euro-implementation project in Croatia. In addition, Addiko booked EUR37 million (2022: EUR26 million) provisions for expected legal matters, in particular due to Swiss franc-denominated loans in Croatia, which is comfortably covered by the bank's profit.

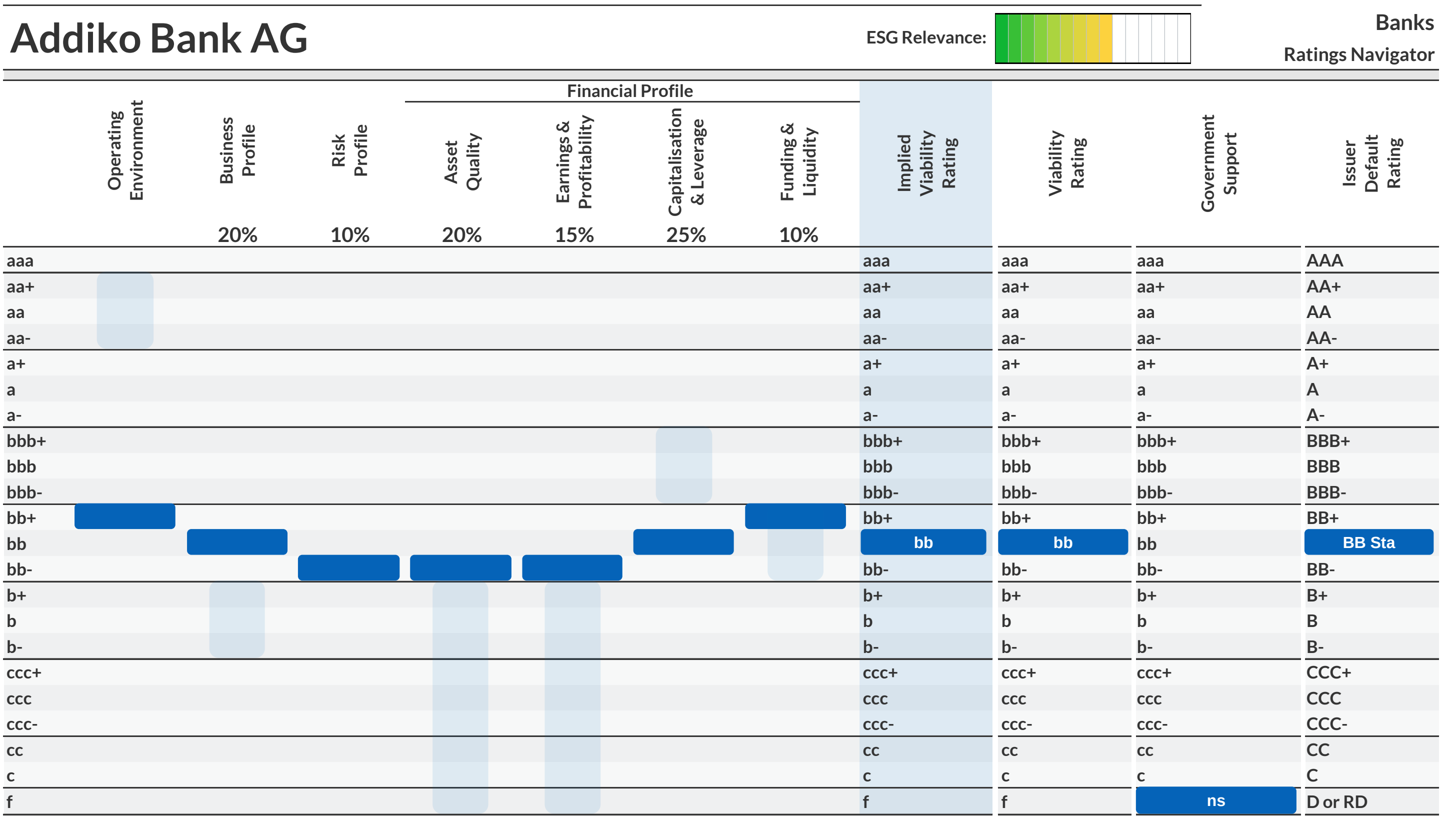
Addiko's earnings retention was sufficient to offset inflating RWAs from loan growth, and the reported CET1 ratio improved to 20.4% at end-2023 (end-2022: 20%).

Resilient Asset Quality

Consumer and SME lending accounted for 49% and 38% of Addiko's loan book at end-2023, respectively. We expect LICs/gross loans to increase to 100bp–130bp in 2024, which is adequately covered by pre-impairment profit. LICs have remained below that level in the past five years due to loan loss allowance reversals in wind-down portfolios.

Addiko's impaired loan ratio improved to 3.8% at end-2023 following an active reduction of its legacy impaired loans through portfolio sales and work-outs. We expect Addiko's impaired loans ratio to remain below 5% over the next two years, as the bank can sell impaired loans in all its markets, except Serbia and Bosnia.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bb+' has been assigned below the 'aa' category implied score, due to the following adjustment reason: international operations (negative).

The business profile score of 'bb' has been assigned above the 'b' category implied score, due to the following adjustment reason: strategy and execution (positive).

The asset quality score of 'bb-' has been assigned above the 'b and below' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The earnings and profitability score of 'bb-' has been assigned above the 'b and below' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The capitalisation and leverage score of 'bb' has been assigned below the 'bbb' category implied score, due to the following adjustment reason: risk profile and business model (negative).

Financials

Financial Statements

	31 Dec 2023		31 Dec 2022	31 Dec 2021	31 Dec 2020
	Year end (USDm)	Year end (EUR 000)	Year end (EUR 000)	Year end (EUR 000)	Year end (EUR 000)
Summary income statement					
Net interest and dividend income	250	228,000	176,400	169,500	174,700
Net fees and commissions	74	67,100	72,500	66,800	59,800
Other operating income	-12	-11,300	-7,400	-4,900	2,500
Total operating income	311	283,800	241,500	231,400	237,000
Operating costs	245	223,300	194,900	192,000	177,700
Pre-impairment operating profit	66	60,500	46,600	39,400	59,300
Loan and other impairment charges	13	11,800	15,400	13,300	48,400
Operating profit	53	48,700	31,200	26,100	10,900
Other non-operating items (net)	-1	-1,300	n.a.	-5,300	-4,600
Tax	7	6,300	5,500	7,200	4,900
Net income	45	41,100	25,700	13,600	1,400
Summary balance sheet					
Assets					
Gross loans	3,999	3,650,300	3,476,200	3,489,100	3,851,400
- Of which impaired	150	137,100	159,600	192,200	237,300
Loan loss allowances	177	161,100	183,500	210,400	266,700
Net loans	3,823	3,489,200	3,292,700	3,278,700	3,584,700
Interbank	73	66,600	89,200	5,700	56,500
Derivatives	5	4,900	5,000	1,100	3,100
Other securities and earning assets	1,322	1,206,600	1,083,800	1,048,800	967,100
Total earning assets	5,223	4,767,300	4,470,700	4,334,300	4,611,400
Cash and due from banks	1,374	1,254,500	1,382,900	1,361,700	1,156,300
Other assets	142	129,700	142,800	146,300	146,800
Total assets	6,740	6,151,500	5,996,400	5,842,300	5,914,500
Liabilities					
Customer deposits	5,514	5,032,600	4,959,600	4,708,200	4,728,100
Interbank and other short-term funding	117	106,800	128,600	174,700	196,300
Other long-term funding	0	100	n.a.	n.a.	n.a.
Trading liabilities and derivatives	5	4,200	3,100	2,300	4,900
Total funding and derivatives	5,635	5,143,700	5,091,300	4,885,200	4,929,300
Other liabilities	226	206,700	158,800	152,000	133,400
Total equity	878	801,100	746,300	805,100	851,800
Total liabilities and equity	6,740	6,151,500	5,996,400	5,842,300	5,914,500
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Addiko Bank AG

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.3	0.9	0.7	0.3
Net interest income/average earning assets	4.9	4.0	3.7	3.6
Non-interest expense/gross revenue	78.7	80.7	83.0	75.0
Net income/average equity	5.4	3.3	1.6	0.2
Asset quality				
Impaired loans ratio	3.8	4.6	5.5	6.2
Growth in gross loans	5.0	-0.4	-9.4	-6.9
Loan loss allowances/impaired loans	117.5	115.0	109.5	112.4
Loan impairment charges/average gross loans	0.4	0.4	0.5	1.2
Capitalisation				
Common equity Tier 1 ratio	20.4	21.1	22.2	20.3
Fully loaded common equity Tier 1 ratio	20.4	20.0	21.6	19.3
Tangible common equity/tangible assets	12.5	11.9	13.2	13.9
Basel leverage ratio	11.6	11.6	12.9	13.1
Net impaired loans/common equity Tier 1	-3.2	-3.3	-2.3	-3.6
Funding and liquidity				
Gross loans/customer deposits	72.5	70.1	74.1	81.5
Liquidity coverage ratio	313.4	307.4	252.1	208.5
Customer deposits/total non-equity funding	97.9	97.5	96.4	96.0
Net stable funding ratio	170.2	170.5	162.6	149.3

Source: Fitch Ratings, Fitch Solutions, Addiko Bank AG

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA+/ Negative
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

The Outlook on Austria's sovereign rating changed to Stable in August 2023; the above 'AA+'/Negative refers to the Outlook at the time of Addiko's rating committee, on 20 July 2023.

The Government Support Rating of 'no support' reflects our view that the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a resolution framework that is likely to require senior creditors participating in losses instead of a bank receiving sovereign support. In addition, we do not factor in any support from Addiko's owners because our general view is that support from financial investors, while possible, cannot be relied on.

Environmental, Social and Governance Considerations

FitchRatings **Addiko Bank AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Addiko Bank AG has 5 ESG potential rating drivers

- Addiko Bank AG has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.