

**Rating Action: Moody's places Addiko Bank AG's deposit ratings on review for upgrade and assigns first time Ba3 rating to Subordinated Tier 2 Notes, on review for upgrade**

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11 Oct 2019

Frankfurt am Main, October 11, 2019 -- Moody's Investors Service (Moody's) has today assigned a Ba3 long-term local currency rating to Addiko Bank AG's (Addiko) planned issuance of euro-denominated subordinated bonds (Subordinated Tier 2 Notes), and placed the rating on review for upgrade. Concurrently, the rating agency placed on review for upgrade Addiko's long- and short-term Ba3/NP deposits ratings, as well as the bank's long- and short-term Ba2(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments) and Ba3/NP Counterparty Risk Ratings (CRR).

The review for upgrade on Addiko's ratings was prompted by the bank's planned issue of Subordinated Tier 2 Notes which will increase the loss absorption buffers for Addiko's depositors and counterparty risk exposures, if placed successfully, and would result in reduced expected losses for these liabilities and a higher rating uplift under Moody's Advanced Loss Given Failure (LGF) analysis. The review for upgrade on the newly assigned Ba3 subordinated debt ratings reflects the possibility of a higher rating uplift under the Advanced LGF analysis if Addiko successfully issues a final volume of the Subordinated Tier 2 Notes beyond the rating agency's current expectations.

Addiko's ba2 Baseline Credit Assessment (BCA) and Adjusted BCA are not affected by today's rating action.

For a list of affected ratings please refer to the end of this press release.

#### RATINGS RATIONALE

##### ASSIGNMENT OF SUBORDINATED DEBT RATING AND PLACING ON REVIEW FOR UPGRADE

The Ba3 long-term subordinated debt rating assigned to Addiko's dated, plain vanilla Subordinated Tier 2 Notes reflects the bank's ba2 BCA and Adjusted BCA, as well as the results of Moody's LGF analysis, which takes into account the severity of loss faced by the different liability classes in resolution. The rating of this new instrument class does not benefit from any government support uplift, in line with Moody's assumption of a low probability of government support to be forthcoming to this debt class in Austria.

The Subordinated Tier 2 Notes constitute direct and unsecured obligations of Addiko, are subordinated to the claims of the bank's senior unsecured creditors and rank pari passu among themselves and any other subordinated claims of Addiko which qualify as Tier 2 capital. The notes are senior to any obligations which would constitute Tier 1 Capital and the claims of equity holders of the bank.

For Addiko's first time issuance of subordinated debt, the rating agency has considered a range of outcomes of successfully placing such notes up to an amount of approximately EUR 50 million. Based on these assumptions, Moody's Advanced LGF analysis indicates a high loss severity for these instruments in the event of the bank's failure, leading to a positioning of the rating one notch below the bank's Adjusted BCA. The simultaneous placing of the Ba3 subordinated debt rating on review for upgrade indicates the sensitivity of the rating positioning to the final amount of debt being placed, that is an amount issued in the order of EUR 75 million or higher could result in moderate loss severity under the Advanced LGF and therefore a one notch higher rating.

##### THE REVIEW FOR UPGRADE OF ALL OTHER RATINGS AND RATING INPUTS

The review for upgrade on Addiko's deposit ratings, its CRRs and CR Assessments is driven by the bank's planned issuance of subordinated debt which will result in larger loss absorption buffers for its depositors and counterparty risk exposures and may increase the notching uplift for these liabilities because of materially reduced expected losses and following the application of Moody's Advanced LGF analysis. Depending on the final issued volume of the Subordinated Tier 2 Notes, the upgrade of the long-term ratings and CR Assessment could be more than one notch.

## WHAT COULD CHANGE THE RATING UP

Addiko's long-term deposits ratings, its CRRs and CR Assessments, as well as the newly assigned subordinated debt rating could be upgraded if the final amount of Subordinated Tier 2 Notes being placed is higher than the rating agency's current expectation.

Addiko's subordinated debt rating could also be upgraded together with any upgrade of the bank's Adjusted BCA.

Upward pressure on Addiko's BCA could be exerted if the bank's macro profile would improve, or if the bank were to develop a sound financial track record of successfully divesting non-core legacy assets and shifting funds in core lending activities to retail and SME customers, thereby improving its asset quality without compromising its level of risk coverage, as well as reducing concentration risks to legacy corporate customers, in combination with improving regulatory capital at single entity and group level.

## WHAT COULD CHANGE THE RATING DOWN

Addiko's subordinated debt rating could be downgraded together with any downgrade of the bank's Adjusted BCA.

Downward pressure on Addiko's BCA could be exerted in the event of: 1) a reversal of the positive trend in asset quality, which could be triggered by a weakening of SEE's macroeconomic growth prospects; 2) unexpected losses, including those from foreign currency lending and pending legal cases, which may negatively impact Addiko's capitalisation; and 3) a significant deterioration in its funding profile, including unexpected deposit outflows and a decline in liquidity buffers.

## LIST OF AFFECTED RATINGS

..Issuer: Addiko Bank AG

On Review for Upgrade:

.... Long-term Counterparty Risk Assessment, Placed on Review for Upgrade, currently Ba2(cr)

.... Short-term Counterparty Risk Assessment, Placed on Review for Upgrade, currently NP(cr)

.... Long-term Counterparty Risk Ratings, Placed on Review for Upgrade, currently Ba3

.... Short-term Counterparty Risk Ratings, Placed on Review for Upgrade, currently NP

.....Long-term Bank Deposit Ratings, Placed on Review for Upgrade, currently Ba3, Outlook Changed to Rating Under Review from Stable

.... Short-term Bank Deposit Ratings, Placed on Review for Upgrade, currently NP

Assigned and placed on Review for Upgrade:

....Subordinate Regular Bond/Debenture, Assigned Ba3

Outlook Actions:

....Outlook, Changed To Rating Under Review From Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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