MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 June 2020

Update

Rate this Research

RATINGS

Addiko Bank AG

Domicile	Vienna, Austria
Long Term CRR	Ba3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Swen Metzler, CFA +49.69.70730.762
VP-Sr Credit Officer
swen.metzler@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

» Contacts continued on last page

Addiko Bank AG

Update to credit analysis

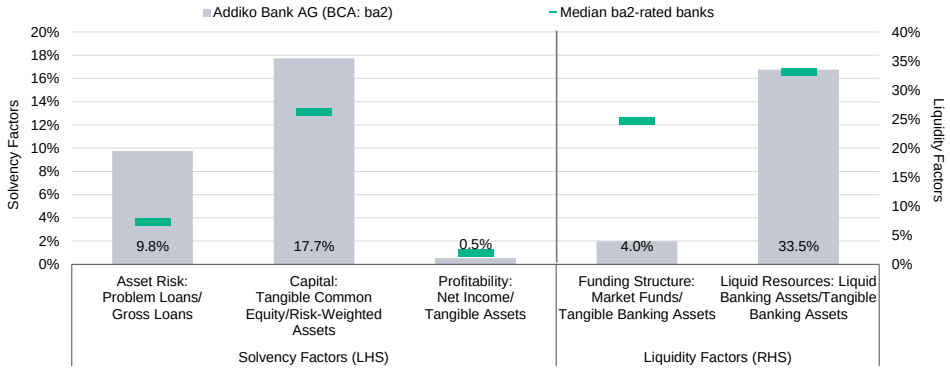
Summary

We assign Ba3 deposit ratings, a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as Ba3 Counterparty Risk Ratings and a Ba2(cr) Counterparty Risk Assessment to Addiko Bank AG (Addiko).

Addiko Bank AG's Ba3 deposit ratings reflect its ba2 BCA and the application of our Advanced Loss Given Failure (LGF)[1] analysis to its liabilities, which results in one notch down from its BCA. Moody's does not incorporate rating uplift from government support for Addiko due to the wider scope of BRRD application in Austria and evidenced willingness of its government to apply burden-sharing to creditors.

Addiko's ba2 BCA balances the bank's adequate capitalization and its sound funding profile with its focus on banking activities in SEE countries, which are more vulnerable to economic cycles and less strong institutionally. Addiko has significantly improved its credit quality but still records high level of problem loans and concentration risks in non-core business. Its profitability is also moderate, with a limited track record of resilience in an economic downturn. All these factors constrain Addiko's BCA. Our view on the bank's BCA could change if the coronavirus credit shock led to a sustained erosion of Addiko's solvency strength.

Exhibit 1
Rating scorecard – key financial ratios



Note: Factors for asset risk and profitability reflect the weaker of 2019 and 3-year average for the period 2017-19; all other factors are as of year-end 2019.
Source: Moody's Financial Metrics

Credit strengths

» Sound funding profile supported by sizeable deposits which drives low dependence on market funding

» Sound and adequate capitalization

» Adequate liquidity buffers but limited ability to shift it among subsidiaries due to local regulatory restrictions

Credit challenges

» Regional lending exposures with focus on economically less developed SEE countries and unsecured consumer lending

» High level of problem loans with some concentrations in the bank's non-core credit exposures, compared with very granular unsecured consumer loans, which however exhibit limited financial history

» Only moderate risk-adjusted profitability with limited track record of resilience in an economic downturn

Rating outlook

The outlook on Addiko's ratings is stable, reflecting our view that the bank will be able to sustain achieved solvency improvements and maintain the current funding structure.

Factors that could lead to an upgrade

An upgrade of Addiko's ratings could be prompted by an upgrade of its BCA or a change in Addiko's liability structure that could prompt a better result from our Advanced LGF analysis, for example through significantly higher volumes of institutional or junior deposits and/or the issuance of senior (or junior-senior) unsecured bonds

Upward pressure on Addiko's BCA could be exerted if the bank's weighted macro profile would improve, or if the bank was to develop a sound, multi-year 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.

Factors that could lead to a downgrade

A downgrade of Addiko's ratings could be prompted by a BCA downgrade.

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; 3) a significant deterioration in its funding profile, including unexpected deposit outflows and a decline in liquidity buffers.

Key indicators

Exhibit 2
Addiko Bank AG (Consolidated Financials) [1]

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	6.1	6.2	6.5	7.2	7.4	(4.8)[4]
Total Assets (USD Billion)	6.8	7.0	7.8	7.6	8.1	(4.0)[4]
Tangible Common Equity (EUR Billion)	0.8	0.8	0.8	1.0	0.7	2.6[4]
Tangible Common Equity (USD Billion)	0.9	0.9	1.0	1.0	0.8	3.4[4]
Problem Loans / Gross Loans (%)	6.5	9.3	13.5	16.2	31.9	15.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.7	18.1	17.4	21.7	13.8	17.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.0	32.3	45.1	45.9	112.5	52.1[5]
Net Interest Margin (%)	2.9	2.6	2.3	2.1	2.3	2.4[5]
PPI / Average RWA (%)	1.0	0.9	0.6	0.2	-4.6	-0.4[6]
Net Income / Tangible Assets (%)	0.5	1.0	0.6	-0.4	-8.8	-1.4[5]
Cost / Income Ratio (%)	81.8	84.1	87.9	95.3	212.6	112.3[5]
Market Funds / Tangible Banking Assets (%)	4.0	5.4	5.7	5.0	6.5	5.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	33.5	35.9	40.7	46.3	37.4	38.7[5]
Gross Loans / Due to Customers (%)	85.6	86.1	83.7	96.2	122.1	94.7[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully loaded or transitional phase-in; IFRS. [3]May include rounding differences because of the scale of reported amounts. [4]Compound annual growth rate (%) based on the periods for the latest accounting regime. [5]Simple average of periods for the latest accounting regime. [6]Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Addiko is a Vienna-based bank which specialises in consumer and SME lending in SEE countries Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Montenegro. Further, Addiko provides online deposit services in Austria and Germany.

At 31 December 2019, Addiko's most important banking activities are in Croatia, accounting for 40% of its consolidated assets and Slovenia (26%), while its exposures in Bosnia and Herzegovina (15%), Serbia (13%), and Montenegro (4%) are smaller. At 31 December 2019, Addiko reported consolidated assets of €6.1 billion (1Q2020: €6.1 billion).

Following the initial public offering (IPO) in July 2019, AI Lake (Luxembourg) S.à r.l. (Al Lake) was Addiko's single largest shareholder. In February 2020, DDM Invest III AG acquired a 9.9% stake from AI Lake, plus an option for a further stake of 10.1% in Addiko. As of March 2020, further significant shareholders of Addiko Bank AG include the European Bank for Reconstruction and Development (EBRD, 8.4% of shares) and Wellington Management Group LLP (7.18% of shares). Around 59.4% of the bank's shares are in free float. Before the IPO, Al Lake, which bought the SEE banking franchise from Hypo Alpe-Adria Bank International AG in 2015, was the bank's sole owner.

Recent developments

The coronavirus will cause unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, G-20 economies will contract in 2020. We presently expect the G-20 advanced economies as a group to contract by 5.8% in 2020 and the euro area by 6.5%, followed by a gradual recovery in 2021. In Europe, the coronavirus outbreak adds to late-cycle risks for European banks. The recession in 2020 will weigh on banks' asset quality and profitability. We expect fiscal policy measures, as already announced by a variety of euro-area governments, to mitigate the economic contraction caused by the outbreak. In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks.

Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

The European Central Bank (ECB) announced a series of measures to help European Union (EU) economies weather the widening effects of the coronavirus pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and

liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations (TLTRO III) under more favourable terms as well as its financial asset purchase program, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help the banks continue to finance corporates and small and medium-sized businesses suffering from the effects of the coronavirus outbreak. We believe that the ECB's measures will provide a limited relief for banks and their borrowers, and that it will require meaningful fiscal policy measures by the European Union and its member states to avert higher default rates in banks' lending books.

Austria announced a large stimulus package that complements the European Central Bank's (ECB) supportive policy actions. The Austrian government launched emergency corporate lending guarantee programs and expanded short-time work subsidies. The measures add to automatic stabilizers that support household incomes when unemployment increases. We believe these policy measures will soften the negative economic effects of the coronavirus outbreak, but might not fully mitigate the credit-negative operational effects from the coronavirus.

Addiko reported an after tax loss of €8.4 million for the first three month of 2020, compared with a net income of €10.1 million for the prior year's period. While net interest income of €45.3 million (1Q19: €44.9 million) and net fee and commission income of €15.3 million (1Q19: €15.6 million) remained broadly stable, Addiko's net loss for the period was mainly because of credit provisions of €14.4 million, compared with a net release of €3.7 million in 1Q19, balanced by a decline in operating expenses of around 10% over the same period, reflecting efficiency measures, such as reduced personnel and administrative costs, as well as the decision to waive potential bonus payments for 2020.

As the economic impact from the coronavirus pandemic remains unclear, Addiko suspended the outlook for 2020 but maintained its medium-term targets until 2023. Except for Serbia, Addiko accommodated the statuatory-requested payment moratoria which allow the deferal of between 3 to 12 month, including interests and principal. At the end of March 2020, around 16% of Addiko's SME/large corporates/public sector clientele had participated and around 14% of its retail customers.

At end-March 2020, Addiko's CET1 ratio decreased to 16.9% compared with 17.7% as of year-end 2019, reflecting mainly negative fair value changes of its financial securities, moderately compensated by a 1.3% reduction in risk-weighted assets.

Detailed credit considerations

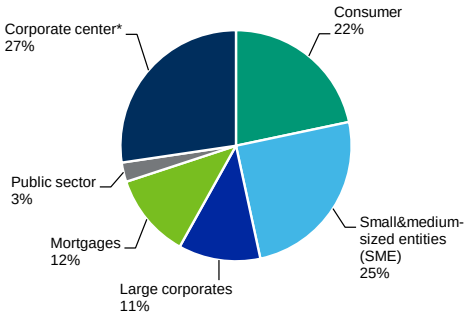
High level of problem loans and gradual transition from legacy exposure to core lending activities

Our assigned b2 score for Asset risk is in line with Addiko's initial score. Our view reflects the expectation of further incremental asset quality improvements as the bank increases its exposures to focus areas. The expected improvement in its problem loan ratio is however balanced by remaining moderate, yet declining, concentration risks which relate to non-core legacy exposures, as well as the bank's rather limited performance history of newly underwritten unsecured consumer loans, which have not yet experienced a full credit cycle.

Since 2015, Addiko has benefited from improving asset quality in its core (consumer and SME lending) and non-core exposures (mortgages, large corporates, public finance), triggering a decline in problem loans to gross loans to 6.5% at year-end 2019 from 9.3% in 2018 (2015: 31.9%). The majority of the group's problem loans relate to the bank's activities in Croatia and Bosnia and Herzegovina. As the bank transitions to core loans from legacy exposures, we expect incremental improvements of its asset quality and a stable level of loan loss reserves which represented 71% of problem loans at end-2019 (2018: 74%). However, the economic shock associated with the corona pandemic may lead to weakening of Addiko's asset quality.

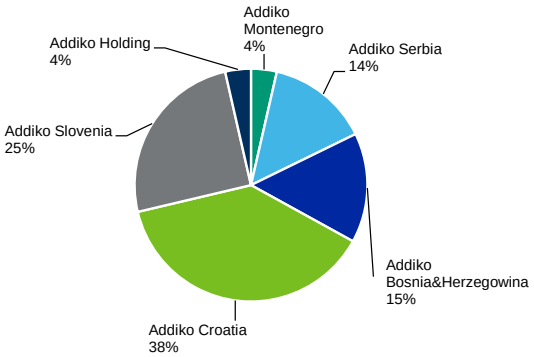
Addiko exhibits improving concentrations in its non-performing legacy exposures, which mainly arise from large corporate customers. These exposures come with higher average ticket sizes, compared with the bank's highly granular core activities, with average volumes of around €7,000 for unsecured consumer loans and less than €250,000 for small and medium sized entities. Our assessment around concentrations risk also takes into account that impaired exposures are adequately provisioned for. At year-end 2019, non-core activities included exposures to mortgages (2019: €837 million, 2018: €1.0 billion), large corporates (2019: €811 million, 2018: €907 million), and the public sector (2019: €192 million, 2018: €223 million).

Exhibit 3
Credit exposure by customer segment
Data in %, as of end-2019



Note: *Includes financial institutions, central banks, and financial securities.
Source: Company reports, Moody's Investors Service

Exhibit 4
Credit exposure by country
Data in %, as of end-2019

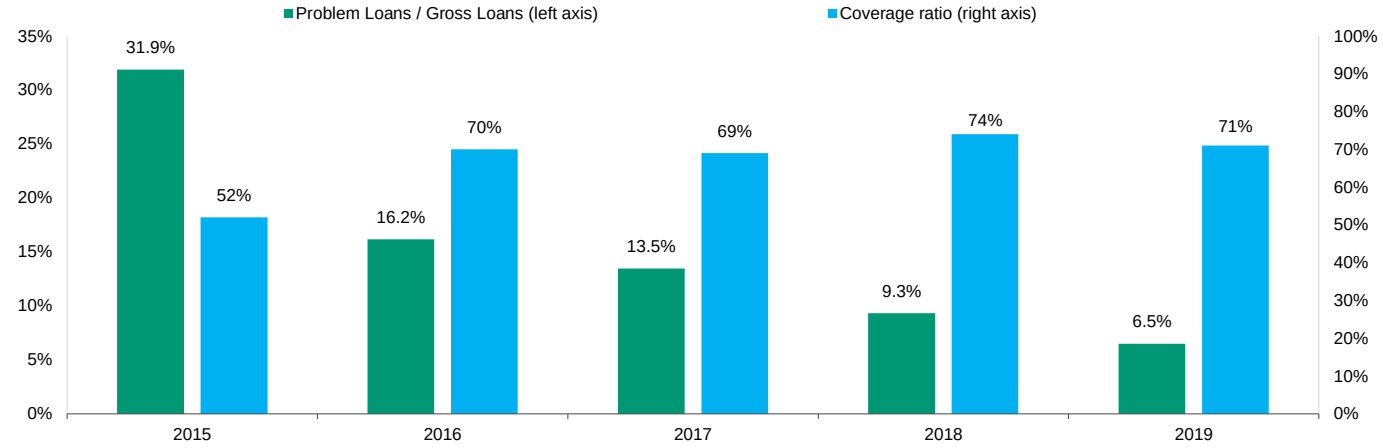


Source: Company reports, Moody's Investors Service

Addiko's focus activities of unsecured consumer and SME lending accounted for 47% of the bank's overall credit exposure at the end of 2019 (2018: 41%, 2017: 35%). We believe that the asset quality of these exposures will benefit over time from the bank's newly established underwriting policies, close risk monitoring, as well as strong receivables collection management and the ability to sell problematic loans. The latter is fully embedded into Addiko's risk management and may allow the disposal of impaired loans under existing agreements with third parties, if permitted by local regulation. However, while vintages of newly underwritten core loans to date exhibit low problem loan formation, the bank has still to demonstrate its ability to maintain the quality of its unsecured consumer loans through adverse economic cycles, including the current uncertainties around the coronavirus pandemic.

Further, we believe that Addiko's credit profile includes legal risks that arise from (1) cases for damage claims; and (2) court rulings favoring consumers for Swiss-franc denominated loans. Legal risks affected the bank in 2015-17 when countries like Croatia and Montenegro amended their laws for foreign currency lending and introduced favorable terms for FX conversion, costing the bank around €258 million in compensation. However, we believe these risks are balanced by adequate legal provisions and a very high percentage of previous verdicts which were in favor of Addiko.

Exhibit 5
Addiko's asset quality continues to improve and coverage remains high



Note: The coverage ratio compares loan-loss-reserves to problem loans.
Source: Company reports, Moody's Investors Service

Adequate capital but moderate stressed capital resilience and limited earnings retention

We reflect Addiko's adequate capitalisation in the assigned baa3 Capital score, which includes a downward adjustment from the bank's baa1 initial score. Our assessment takes into account Addiko's moderate stress capital resilience, reflecting its high vulnerability from unsecured lending in more volatile, less developed SEE countries, as well as limited earnings retention because of our expectations around the bank's post-coronavirus dividend policy where we assume high-pay-out of profits. We assess Addiko's capitalisation to be adequate in the context of the risks that the bank has taken in the field of unsecured consumer and SME lending, despite by a decrease in the bank's Tangible Common Equity (TCE) to risk weighted assets (RWA) ratio to 17.7% in 2019, compared with 18.1% in 2018. Our assessment also takes into account Addiko's distance to regulatory thresholds at group level of about three percentage points for total capital, which we expect to remain at or below that buffer level.

We expect that the bank's Common Equity Tier 1 (CET1) ratio will moderately decline, reflecting weakening asset quality associated with the economic uncertainties around the coronavirus pandemic. Addiko reported capital ratios at 16.9% as of end-March 2020, compared with 17.7% in 2019 and 17.7% in 2018.

As the bank executes on its strategic growth plans until 2023, we expect a moderate decline in Addiko's capital ratios, reflecting the balance of freed up capital from maturing legacy assets that is gradually invested into core unsecured loans. On 19 November, Addiko announced to postpone the issuance of subordinated debt until 2020.

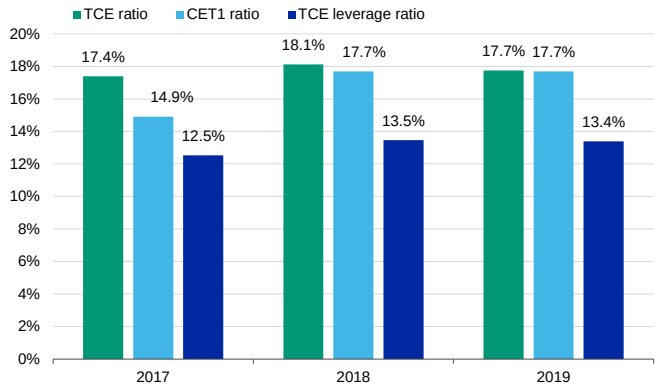
Despite the challenges from the coronavirus fallout, we expect that the bank will maintain its sufficient capital buffers to regulatory minimum requirements at group level, which the Austria's Financial Market Authority has set to 11.1% CET1 and 14.6% total capital ratio, including the capital conservation buffer of 2.5%, at year-end 2019. Addiko must comply with a 4.1% Pillar 2 Requirement (P2R) capital requirement, which in combination with the 4.5% minimum Pillar 1 Requirement and 2.5% Capital Conservation Buffer determines its 11.1% CET1 minimum capital ratio. In addition, Addiko will have to comply with a Pillar 2 Guidance (P2G) requirement, currently set at 4.0% of risk-weighted assets in accordance with the Austrian Financial Market Authority's (FMA) formal decision regarding the SREP 2020 capital requirements. However, it is still unclear as of when this additional buffer applies. Addiko will have to present a capital plan to the FMA until February 2021, including details around how and over which period the bank intends to comply with the additional capital buffer.

Addiko's leverage ratio, based on consolidated numbers and our leverage metric of tangible common equity to tangible assets, is sound at 13.4% at year-end 2019 (2018: 13.5%). Addiko uses the standardised approach for measuring the credit risk, which partly explains a relatively high risk density, measured by comparing risk-weighted assets to total assets, of 75% at year-end 2019 (2018: 74%), while the bank's focus on unsecured consumer lending and SME business is another importance source of the reported risk density.

Exhibit 6

Addiko's TCE and CET1 ratio remains comfortable

Data in percent of risk-weighted assets, except for TCE leverage ratio*

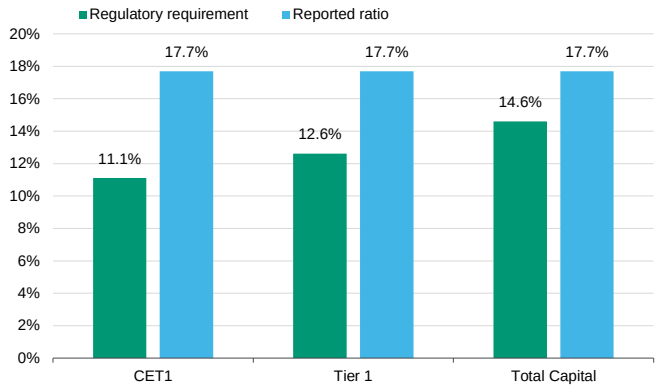


Note: TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1; *The TCE leverage ratio compares TCE to tangible assets.
Source: Company reports, Moody's Investors Service

Exhibit 7

Addiko's capital exceeds going-concern capital requirements*

Data in percent of risk-weighted assets as per 31 December 2019



Note: *Regulatory minima requirements are set in accordance with the ECB's Supervisory Review and Evaluation Process (SREP).
Source: Company reports, Moody's Investors Service

Despite the absence of profit and loss transfer agreements, Addiko has developed a track-record of upstreaming dividends to shareholders and from its SEE subsidiaries, which mainly relates to Croatia, Slovenia, and Serbia and adds some financial flexibility at consolidated group level.

Moderate profitability which will benefit from the shift to focus activities but remains highly sensitive to credit costs

We assign a ba3 Profitability score, in line with Addiko's initial score. Our assessment takes into account (1) the bank's continued improvement in profitability from loss-making periods in 2016 and 2015; (2) Addiko's shift into higher margin unsecured consumer and SME lending; (3) its improved and streamlined operating platform, including centralized management and the provision of shared services across the group; and (4) the benefit for future pre-tax profits that arises from the presence of deferred tax assets on existing tax loss carryforwards.

We believe that Addiko's business model is well tailored to benefit from its high degree of digitalisation, leading to low incremental costs for additional revenue. This view is based on the successful transformation of Addiko's operating model since the take-over by Advent and EBRD in mid-2015. Due to its focus on unsecured consumer and SME lending, Addiko's business model exhibits a high net interest margin (NIM), compared with those of universal banks and we expect the margin to increase further as Addiko expands its core activities. In 2019, Addiko's NIM was 2.9%, compared with 2.6% in 2018 based on our calculation, supporting the increase in net interest income to €183 million in 2019, compared with €173 million in 2018. Net interest income is Addiko's main income source, accounting for around three quarters of its revenue.

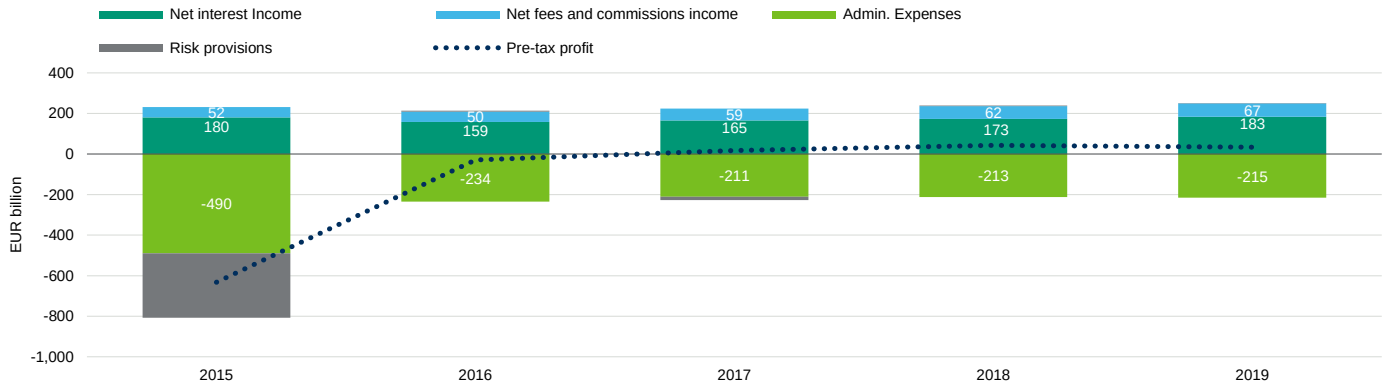
Addiko's improving operating trend continued during 2019. The reduction of Addiko's net income to €35 million in 2019, compared with €104m in 2018, mainly reflects the absence of the large extra-ordinary €61 million contribution from converting Tier 2 capital into common equity in 2018. Similar to 2018, Addiko also benefited from the benign credit quality of its customer in 2019, triggering a moderate net reversal of credit provision of € 3 million.

Addiko's risk-adjusted profitability is highly sensitive to the credit cycle in its SEE markets. For 2019-20, we expect rising credit provisions, as demonstrated by the bank's precautionary risk charge during 1Q20. During 2019, Addiko has managed to improve credit concentration risks, in particular because of lower exposure to non-focus corporate customers, a credit positive.

Exhibit 8

Addiko's profitability is reliant on net interest income

Data in € million



Source: Company reports, Moody's Investors Service

Sound funding profile supported by sizeable deposits which drives low dependence on market funding

Addiko's sound funding profile is reflected in the assigned baa2 Funding Structure score, which is one notch below the bank's initial score. The negative adjustment reflects our expectation of a moderate increase in market funding, if and when Addiko must comply with the current regime of Minimum Requirements for own funds and Eligible Liabilities (MREL), which the Single Resolution Board (SRB) is proposing using a Single Point of Entry (SPE) approach.[2] Overall, Addiko's low dependence on market funding strongly supports our assessment of the bank's standalone credit strength. Our view also considers a low concentration from the bank's largest depositors.

Addiko's lending activities are largely funded by customer deposits, which, at €4.8 billion as of year-end 2019, accounted for around 79% of its balance sheet (2018: 79%). Around 40% of the deposits were term deposits, and around 80% are euro denominated, followed by the Croatian kuna (HRK) and Serbian dinar (RSD).

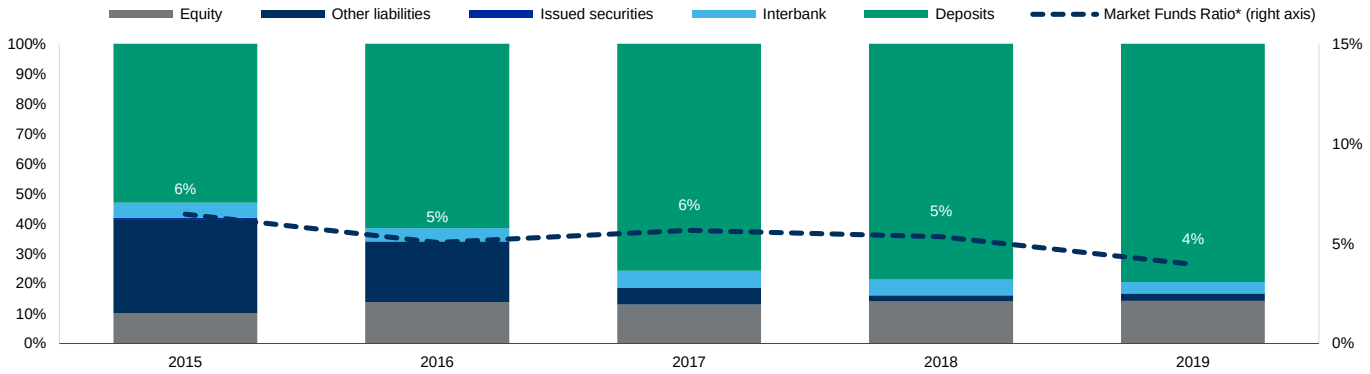
Addiko's banking activities in Croatia exhibit a favorable loan-to-deposit ratio of around 77% as of end-2019 (2018: 66%). Slovenia, Addiko's second most important country of operation, exhibits a balanced mix of loans and deposits, at 97% over the same period (2018: 87%), while this metric ranges between 75% to 109% for Bosnia and Herzegovina, Montenegro and Serbia. We expect that Addiko will be able to further expand its deposit base, while the successful collection of online-generated deposits in Austria and Germany (combined at around €413 million as of year-end 2019, compared with €360 million as of 2018) will help to diversify Addiko's funding sources from the current SEE focus.

Our assessment of a low market funding dependence is underpinned by €240 million market funds, equivalent to 4% of assets as of year-end 2019, slightly down compared to December 2018, and mainly comprising liabilities to financial institutions and the participation in repo funds (LTRO funds)[3] transacted with the Slovenian National Bank, with maturities in 2020.

Exhibit 9

Addiko's sizeable deposits drive low market funding dependence

Data in percent of tangible assets



Note: *Market funds ratio = Market funds as percent of tangible assets.

Source: Company reports, Moody's Investors Service

Adequate liquidity buffers but ability to shift among subsidiaries is limited due to local regulatory restrictions

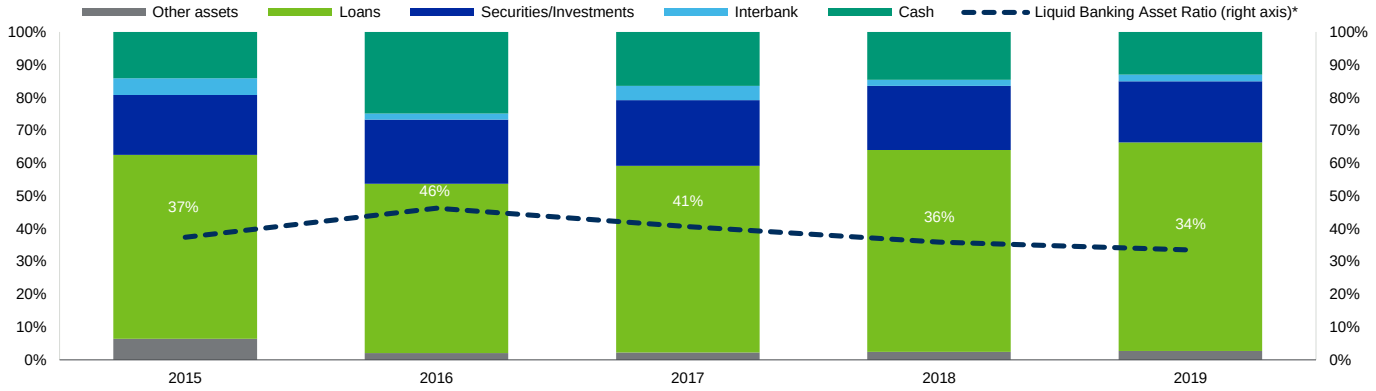
Addiko's Liquid Resources score is ba1, which includes a downward adjustment from its baa3 initial score, reflecting our assessment of limited flexibility to move liquid assets among SEE subsidiaries. Our liquidity assessment takes into account Addiko's cash, claims on banks, and repo-eligible and unencumbered securities. This total accounted for around 33.5% of assets as of year-end 2019, compared with 35.9% in 2018 and 40.7% in 2017.

Addiko maintains adequate liquidity buffers, as illustrated by its consolidated 175% liquidity coverage ratio (LCR) reported in 2019 (December 2018: 150%). Almost all of the bank's €1.14 billion securities portfolio was principally eligible as collateral at central banks. However, Addiko's securities portfolio is physically hosted in different SEE entities, which reduces the bank's flexibility to transfers, if need arises, because of local requirements. Around half of the securities are physically booked at Addiko's Croatian subsidiary, while around 14% of the securities are hosted at the Vienna-based parent bank.

Exhibit 10

Addiko's liquidity is based on cash and high-quality financial securities

Data in percent of tangible assets



Note: *Liquid banking assets ratio = Liquid assets as percent of tangible assets.
Source: Company reports, Moody's Investors Service

Macro Profile of "Moderate –"

Addiko's assigned "Moderate –" macro profile reflects the asset-weighted average of its banking activities in Austria, Croatia, Slovenia, Serbia, Bosnia and Herzegovina, and Montenegro.

Environmental, social and governance considerations

In line with our general view on the banking sector, Addiko Bank AG has a low exposure to environmental risks (see our environmental (E) risk heatmap[4]).

For social risks, we also place Addiko Bank AG in line with our general view on the banking sector, which indicates a moderate exposure (see our social (S) risk heatmap.[5] This assessment takes into account pending legal disputes around foreign currency-denominated loans in all SEE countries where Addiko is present and includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets.

Governance[6] is highly relevant for Addiko, as it is to all banks. However, for Addiko we do not have any particular governance concern and we do not apply any corporate behavior adjustment to the bank. Nonetheless, corporate governance remains a key credit consideration and continues to be a subject of our ongoing monitoring.

Support and structural considerations

Loss Given Failure (LGF) analysis

Addiko is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an operational resolution regime. We expect Addiko Bank AG, the parent entity based in Vienna, Austria, to be resolved on its own and consider all SEE subsidiaries out of scope for the Austrian resolution authority. The application of a domestic resolution approach is in line with our standard assumption for cross-border banking groups.

Because Addiko is subject to an operational resolution regime, we apply our Advanced LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure, should the bank enter resolution. In line with our standard assumptions, we assume residual TCE of 3% and losses post failure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. In addition, we assume a 10% share of wholesale deposits relative to total deposits, which is our central assumption for banks relying mostly on retail deposits.

For Addiko's Ba3 deposit ratings, our LGF analysis indicates a high loss given failure, resulting in a positioning of the rating one notch below the bank's ba2 Adjusted BCA.

Government support considerations

We apply a low probability of support by the Government of Austria, leading to no rating uplift for creditors, because of its marginal importance for the Austrian banking system.

Counterparty Risk Ratings (CRRs)

Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Addiko's CRRs are positioned at Ba3/NP.

The CRR is positioned one notch below Addiko's ba2 Adjusted BCA, reflecting the high loss-given-failure from the low volume of instruments that are subordinated to CRR liabilities in our Advanced LGF analysis.

Counterparty Risk Assessment (CR Assessment)

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails. They are distinct from debt and deposit ratings in that they: 1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and 2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CRA is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Addiko's CR Assessments are positioned at Ba2(cr)/NP(cr).

Addiko's CR Assessments are positioned in line with its ba2 Adjusted BCA, based on the low buffer against default provided to the senior counterparty obligations by more junior instruments, such as senior unsecured debt and dated subordinated debt - including the bank's junior deposits. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we use in rating Addiko Bank AG is Banks Methodology, published in November 2019.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11
Addiko Bank AG

Macro Factors						
Weighted Macro Profile	**Moderate -**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	9.8%	b2	←→	b2	Sector concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.7%	baa1	←→	baa3	Stress capital resilience	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.5%	ba3	←→	ba3	Expected trend	Return on assets
Combined Solvency Score		ba2		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.0%	baa1	←→	baa2	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.5%	baa3	←→	ba1	Intragroup restrictions	Stock of liquid assets
Combined Liquidity Score		baa2		baa3		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa1		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	-1	0	ba3
Counterparty Risk Assessment	-	-	-	-	-	-	-	0	0	ba2 (cr)
Deposits	-	-	-	-	-	-	-	-1	0	ba3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	-1	0	ba3	0	Ba3	Ba3
Counterparty Risk Assessment	0	0	ba2 (cr)	0	Ba2(cr)	
Deposits	-1	0	ba3	0	Ba3	Ba3

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
ADDIKO BANK AG	
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

Endnotes

1 Our Advanced LGF analysis takes into account the severity of loss faced by the different liability classes in resolution.

2 Addiko is preparing to comply with MREL requirements based on a Multiple Point of Entry approach.

3 LTRO: Long-term refinancing operations.

4 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

5 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenues.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates due to poor governance, such as break-down in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

REPORT NUMBER 1232070

Contacts

Simon Boemer +49.69.70730.892
Associate Analyst
simon.boemer@moodys.com

MOODY'S
INVESTORS SERVICE