FINANCIAL INSTITUTIONS

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CREDIT OPINION

4 December 2020

Update

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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

» Contacts continued on last page

Addiko Bank AG

Update to credit analysis

Summary

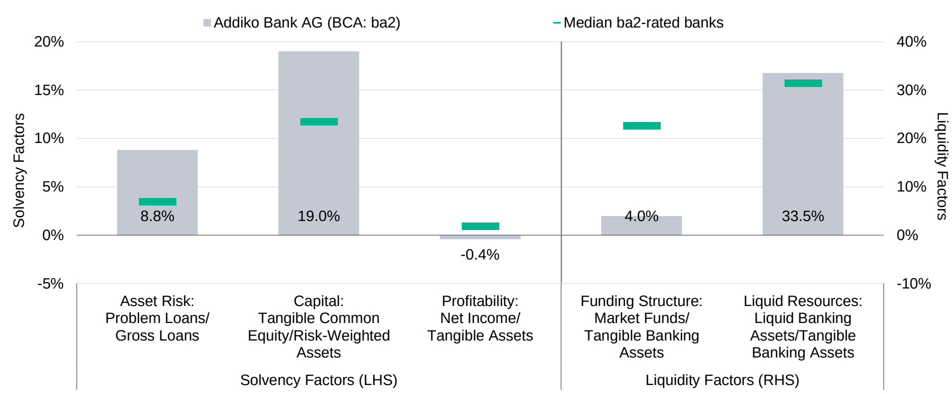
We assign Ba3(stable)/NP deposit ratings to Addiko Bank AG (Addiko). We further assign a Baseline Credit Assessment (BCA) and Adjusted BCA of ba2, as well as Ba3 Counterparty Risk Ratings and a Ba2(cr) Counterparty Risk Assessment to the Vienna-based bank.

Addiko'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 a high loss-given-failure and a rating positioning of one notch below its BCA. We do not incorporate rating uplift from government support for Addiko due to the wider scope of BRRD application in Austria and evidenced willingness of the government to apply burden-sharing to creditors.

Addiko's ba2 BCA reflects its sound capitalization and funding profile, which balance the bank's banking activities in SEE countries, that are more vulnerable to economic cycles. Addiko has significantly improved its credit quality but still records moderate level of problem loans and some concentration risks in non-focus areas. 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



Source: Moody's Financial Metrics

Credit strengths

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

» Sound capitalization which strongly underpins Addiko's credit profile

» 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

» Moderate 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 and benefit from payment moratoria

» 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 unsecured or subordinated debt.

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-focus legacy assets and shifting funds in focus 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]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	5.9	6.1	6.2	6.5	7.2	(5.4)[4]
Total Assets (USD Billion)	6.7	6.8	7.0	7.8	7.6	(3.7)[4]
Tangible Common Equity (EUR Billion)	0.8	0.8	0.8	0.8	1.0	(5.6)[4]
Tangible Common Equity (USD Billion)	0.9	0.9	0.9	1.0	1.0	(3.9)[4]
Problem Loans / Gross Loans (%)	5.9	6.5	9.3	13.5	16.2	10.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.0	17.7	18.1	17.4	21.7	18.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	22.6	25.0	32.3	45.1	45.9	34.2[5]
Net Interest Margin (%)	2.9	2.9	2.6	2.3	2.1	2.6[5]
PPI / Average RWA (%)	1.3	1.0	0.9	0.6	0.2	0.8[6]
Net Income / Tangible Assets (%)	-0.4	0.5	1.0	0.6	-0.4	0.2[5]
Cost / Income Ratio (%)	77.3	81.8	84.1	87.9	95.3	85.3[5]
Market Funds / Tangible Banking Assets (%)	4.0	4.0	5.4	5.7	5.0	4.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.6	33.5	35.9	40.7	46.3	38.2[5]
Gross Loans / Due to Customers (%)	84.3	85.6	86.1	83.7	96.2	87.2[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 unsecured consumer and SME lending in South-Eastern Europe (SEE) countries Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Montenegro. Further, Addiko collects online deposits in Austria and Germany.

At 30 September 2020, Addiko's most important banking activities are in Croatia, accounting for 39% of its consolidated assets and Slovenia (26%), while its exposures in Bosnia and Herzegovina (15%), Serbia (14%), and Montenegro (4%) are smaller. At 30 September, Addiko reported consolidated assets of €5.9 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. As of 10 November 2020, Addiko's largest shareholders include DDM Invest III AG (9.9% of shares), the European Bank for Reconstruction and Development (EBRD, 8.4%), and Wellington Management Group LLP (7.18%). Around 62.9% 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. 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.

Addiko operates in SEE countries which have taken measures to address the economic consequences of the coronavirus pandemic for individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays between three to twelve months. Except for Slovenia and Bosnia&Herzegovina, where customers can apply for inclusion until end-November 2020 and end-December 2020, respectively, all moratoria programs in SEE countries where Addiko is active have expired. In Montenegro, a new moratorium is in place since November 2020 which, however, comes with stricter conditions to apply for, compared with the previous one.

Detailed credit considerations

Moderate level of problem loans and continued gradual transition from legacy exposures 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. However, the economic fallout from the coronavirus pandemic will slow down the gradual improving trend. Our asset risk assessment for Addiko further takes into account its remaining moderate, yet declining, concentration risks associated with 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 focus (consumer and SME lending) and non-focus activities (mortgages, large corporates, public finance), triggering a decline in problem loans to gross loans to 5.9% at end-June 2020 from 6.5% in 2019 (2015: 31.9%). We believe that the economic shock associated with the corona pandemic will lead to weakening asset quality, in particular if payment moratoria, which prevented defaults for potentially impacted exposures, expire. At end-September 2020, around 14% of Addiko's total exposures (excluding the corporate center) was affected by moratoria, compared with 20% at end-June 2020. During the third quarter, Addiko benefited from a 34% reduction of exposures affected by moratoria, which declined to €667 million at end-September, compared with €1.0 billion at end-June 2020. Around 80% of these exposures in moratoria related to customers in Serbia, because of the country's statutory mandatory inclusion ("opt-out"), which has expired since 1st of October.

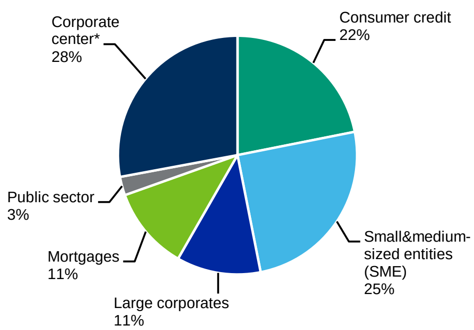
The majority of Addiko's problem loans relate to the bank's activities in Croatia and Bosnia and Herzegovina. As the bank transitions to core loans from legacy exposures, we expect incremental improvements of its asset quality and a broadly stable level of loan loss reserves which represented 71% of problem loans at end-June 2020 (2019: 71%).

Addiko exhibits improving credit concentrations in its non-focus 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 concentration risks also takes into account that impaired exposures are adequately provisioned for. At end-June 2020, non-focus activities included €783 million exposures to large corporates (2019: €811 million), €776 million to mortgages (2019: €837 million), and €173 million to the public sector (2019: €192 million).

Exhibit 3

Credit exposures by customer segment

Data in %, as of June 2020

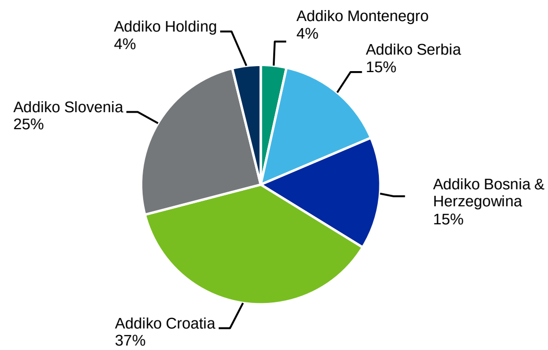


Note: *Includes financial institutions, central banks, and financial securities.
Source: Company reports, Moody's Investors Service

Exhibit 4

Credit exposures by country

Data in %, as of June 2020



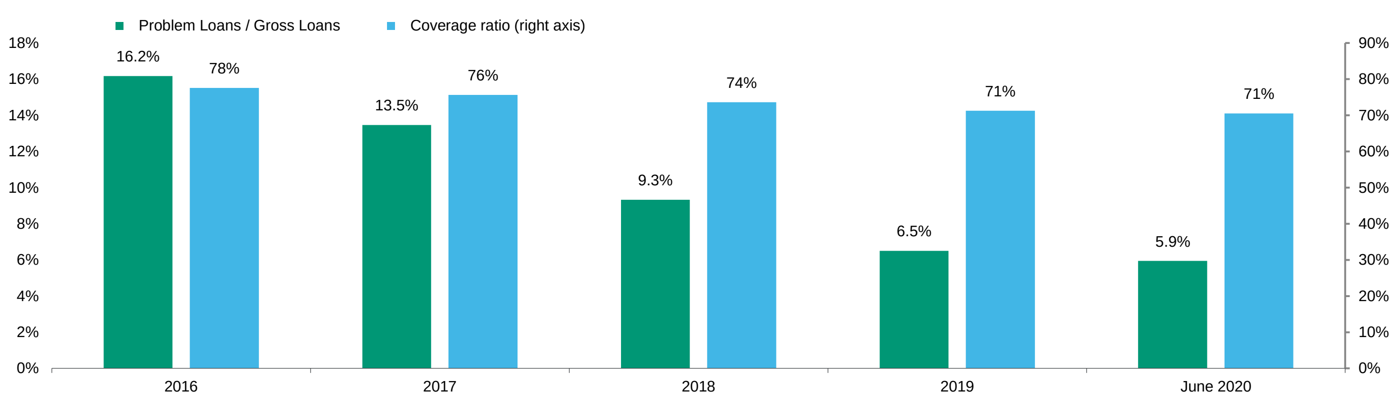
Source: Company reports, Moody's Investors Service

Addiko's activities focus on unsecured consumer and SME lending, accounting for 47% of the bank's total credit exposures at the end of June 2020 (2019: 47%, 2018: 41%). 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 associated with 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 specific and generic loan-loss-reserves to problem loans.
Source: Company reports, Moody's Investors Service

Sound capital but moderate stressed capital resilience and limited earnings retention

We reflect Addiko's sound capitalisation in the assigned baa3 Capital score, which includes a downward adjustment from the bank's a3 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 on in the field of unsecured consumer and SME lending, its focus areas. Our view is supported by the bank's Tangible Common Equity (TCE) to risk weighted assets (RWA) ratio, which increased to 19.0% at 30 June, compared with 17.7% in 2019. As Addiko executes on its strategic growth plans until 2023, we expect a moderate decline in its capital ratios, reflecting the balance of freed-up capital from maturing legacy assets that is gradually invested into focus activities.

Our assessment also takes into account Addiko's ample distance to regulatory thresholds at group level, which improved to more than four percentage points for total capital during the first half of 2020 from three percentage points previously (Exhibit 7). We expect the expansion to be temporary, as weakening asset quality associated with the economic uncertainties around the coronavirus pandemic will lead to rising RWA for the remainder of 2020 and beyond.

During the second quarter of 2020, Addiko's regulatory capital ratios benefited from declining RWAs because of lower outstanding loans, RWA optimization, a recovery in OCI reserves, as well as regulatory RWA adjustments (quick fixes). The combined effect helped to improve the bank's regulatory capital ratios by 144 basis points, lifting the transitional Common Equity Tier 1 (CET1) ratio to 19.0% at end-June 2020, compared with 16.9% at end-March 2020 (2019: 17.7%). During the third quarter of 2020, Addiko's transitional CET1 ratio further improved to 19.2%, reflecting the quarterly profit and unchanged RWA at €4.16 billion.

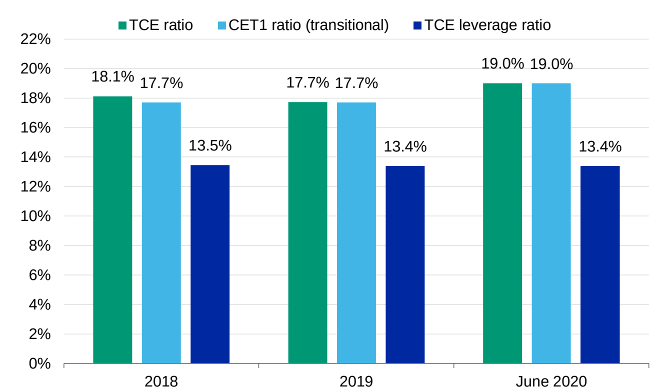
Despite the challenges from the coronavirus fallout, we expect that the bank will maintain its sufficient capital buffers to regulatory minimum requirements at group level, which the Austria's Financial Market Authority has set to 11.1% CET1 and 14.6% total capital ratio, including the capital conservation buffer of 2.5%, at end-June 2020. 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) buffer, currently set at 4.0% of RWA 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 TCE to tangible assets, is sound at 13.4% at end-June 2020 (2019: 13.4%). Addiko uses the standardised approach for measuring the credit risk, which partly explains a relatively high risk density, measured by comparing RWA to assets, of 71% at end-September 2020 (2019: 75%), 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 ratios remain comfortable

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

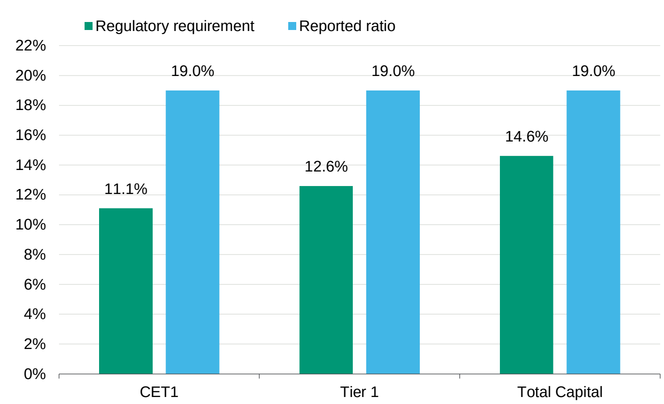


Note: TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1; *The TCE leverage ratio compares TCE to tangible assets.
Source: Company reports, Moody's Investors Service

Exhibit 7

Addiko's capital exceeds going-concern capital requirements*

Data in percent of risk-weighted assets as per 30 June 2020**



Note: *Regulatory minima requirements are set in accordance with the ECB's Supervisory Review and Evaluation Process (SREP). ** Addiko's regulatory capital requirements remained unchanged for 3Q20, compared with end-June 2020.
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, which is five notches higher than Addiko's initial score. Our assessment takes into account the bank's (1) temporary dip in profitability from provisioning for weakening asset quality associated with the coronavirus pandemic; (2) shift into higher margin unsecured consumer and SME lending; and (3) improved and streamlined operating platform, including centralized management and the provision of shared services across the group. Our assessment also reflects the bank's benefit of future pre-tax profits that arise from the presence of deferred tax assets on existing tax loss carry-forward.

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 relatively high net interest margin (NIM), at around 2.9% at end-September 2020 based on our calculations. The pandemic has somewhat slowed the bank's gradual rising share of focus activities, which remained unchanged at 47% of total exposures at default (EaD) at end-September 2020, compared with 2019 (2018: 41%, 2017: 35%). However, we expect that Addiko will continue to reduce the exposures to non-focus customers and thus also improve its credit concentration risks, a credit positive. As of 30 September 2020, Addiko reduced its exposures to non-focus activities by around 8.2% to €1.7 billion, compared with year-end 2019.

For the period January to September 2020, Addiko reported a net loss of €6 million, compared with a net profit of €23 million for the prior year's period. While net interest income of €132 million (3Q19: €137 million) and net fee and commission income of €44 million (3Q19: €50 million) decreased marginally, Addiko's net loss was mainly driven by higher credit provisions, which increased to around €38 million, compared with net releases of €0.5 million in last year's period. This negative trend was balanced by a 12% decline in operating expenses to €125 million 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.

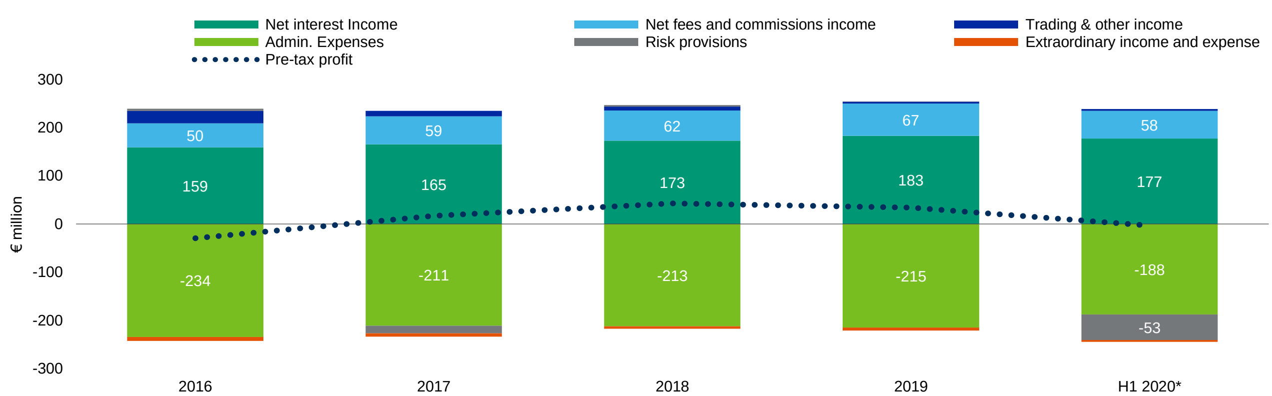
Addiko's risk-adjusted profitability is highly sensitive to the credit cycle in its SEE markets. For 2020 and beyond, we expect elevated credit provisions of around €50-60 million, which is equivalent to between 120-150 basis points of gross loans. This compares to the period 2018-19, when Addiko's net loan loss provisions accounted for only around 5-10 basis points of gross loans.

Addiko expects to update its mid-term financial targets during the release of full-year results, which is scheduled for 10 March 2021.

Exhibit 8

Addiko's profitability depends on net interest income and is very sensitive to risk provisions

Data in € million



Note: *Data reflects annualized 1H2020 figures.
Source: Company reports, Moody's Investors Service

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

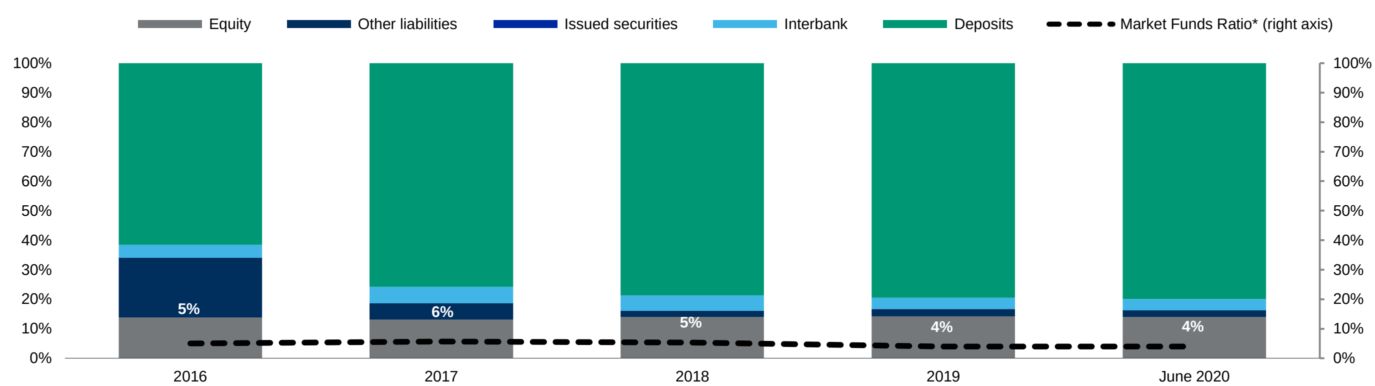
Addiko's sound funding profile is reflected in the assigned baa2 Funding Structure score, which is one notch below the bank's initial score. The negative adjustment reflects our expectation of a moderate increase in market funding, if and when Addiko must comply with the current regime of Minimum Requirements 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 €4.7 billion as of end-September 2020, accounted for around 80% of its balance sheet (2019: 79%). Around 40% of the deposits were term deposits, and around 70% 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 74% as of end-September 2020 (2019: 77%). Slovenia, Addiko's second most important country of operation, exhibits a balanced mix of loans and deposits, at 99% over the same period (2019: 96%), while this metric ranges between 68% to 103% 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 €422 million as of end-June 2020, compared with €413 million as of year-end 2019) will help to diversify Addiko's funding sources from the current SEE focus.

Our assessment of a low market funding dependence is underpinned by €237 million market funds, equivalent to 4% of assets as of end-June 2020, slightly down compared to December 2019, 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

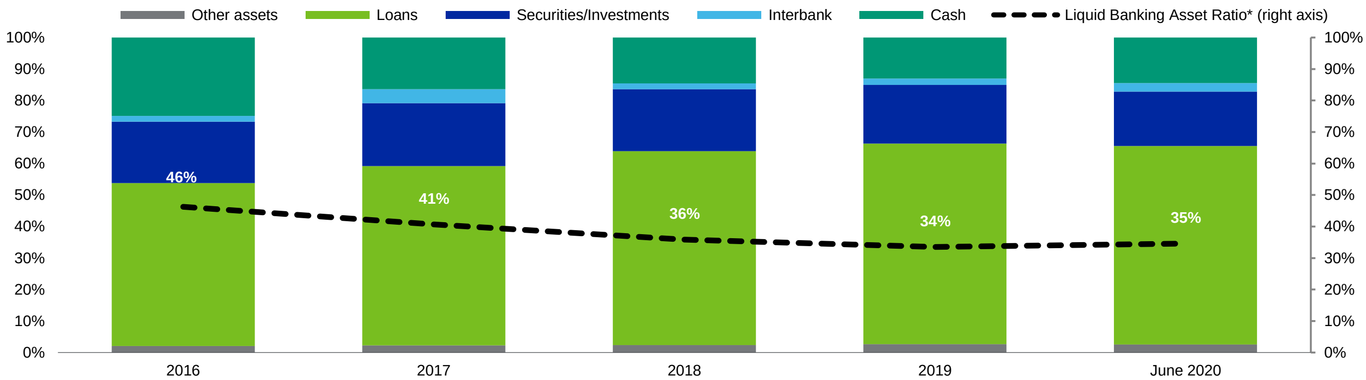
Addiko's Liquid Resources score is ba1, which includes a downward adjustment from its baa3 initial score, reflecting our assessment of limited flexibility to move liquid assets among SEE subsidiaries. Our liquidity assessment takes into account Addiko's cash, claims on banks, and repo-eligible and unencumbered securities. This total accounted for around 34.6% of assets as of end-June 2020, compared with 33.5% in 2019 and 35.9% in 2018.

Addiko maintains adequate liquidity buffers, as illustrated by its consolidated 210% liquidity coverage ratio (LCR) reported as of end-September 2020 (December 2019: 175%). A high share of the bank's €1.03 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 16% of the securities are hosted at the Vienna-based parent bank as of 30 September 2020.

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 Addiko's 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		8.8%	b2	↔	b2	Sector concentration	Unseasoned risk
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		19.0%	a3	↔	baa3	Stress capital resilience	Risk-weighted capitalisation
Profitability							
Net Income / Tangible Assets		-0.4%	caa2	↔	ba3	Expected trend	Return on assets
Combined Solvency Score			ba3		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.

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Contacts

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