

Rating Action: Moody's affirms Addiko Bank AG's Ba3 deposit ratings, outlook changed to positive

17 Aug 2022

Baseline Credit Assessment affirmed at ba2

Frankfurt am Main, August 17, 2022 -- Moody's Investors Service (Moody's) has today affirmed Addiko Bank AG's (Addiko) long-term deposit ratings at Ba3 and changed the outlook on these ratings to positive from stable. Concurrently, the rating agency affirmed the bank's long-term Counterparty Risk Ratings at Ba2, its Counterparty Risk (CR) Assessment at Ba1(cr), and its Baseline Credit Assessment (BCA) and Adjusted BCA at ba2.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF BASELINE CREDIT ASSESSMENT

The affirmation of Addiko's BCA considers the bank's continuous improvement in asset quality and concentration risks in the challenging economic environment since the coronavirus outbreak, accompanied by strengthening capitalization, as well as a very solid funding profile. Moody's expects that the developments around the bank's improved solvency and liquidity profile will be sustained.

While the bank's financial metrics are overall trending towards a standalone creditworthiness commensurate with a higher BCA, the affirmation incorporates some remaining vulnerabilities as to the stability of this trajectory, in particular the potential impact on the bank's consumer lending portfolio on the back of rising interest rates and higher energy prices, as well as the pending uncertainties associated with legal risks in Slovenia for Swiss franc-denominated loans. Also, the bank's profitability has so far remained significantly below peers that operate a similar business model with focus on unsecured consumer and SME lending.

Moody's believes that Addiko's risk-adjusted profitability will benefit from the rising share of core lending activities and the declining impact from legacy exposures. Addiko's profitability is highly sensitive to the credit cycle in its South Eastern European markets, and exhibits only moderate earnings retention, reflecting its shareholder-friendly dividend strategy.

The BCA affirmation further considers Addiko's very solid funding, underpinned by sizeable and diversified client deposits which accounted for around 81% of consolidated assets at the end of March 2022. Moody's further believes that Addiko's operates with ample liquid resources to comply with local regulatory requirements for its consolidated bank subsidiaries.

-- AFFIRMATION OF DEPOSIT RATINGS

The affirmation of Addiko's long-term deposit ratings at Ba3 follows the affirmation of the bank's BCA and Adjusted BCA, as well as the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for different liability classes. For Addiko's deposit ratings, the rating agency's LGF analysis continues to indicate a high loss given failure, resulting in a one notch deduction from the bank's ba2 Adjusted BCA. Moody's assessment continues to incorporate an unchanged assumption of a low likelihood of government support for deposits, because of the bank's small size in the context of the Austrian banking sector.

-- OUTLOOK CHANGE TO POSITIVE

The positive outlook on the long-term deposit ratings reflects the scenario that Addiko's solvency profile develops stronger than anticipated by the rating agency, and thus could lead to an upgrade of the bank's BCA.

In particular, an upgrade requires that Addiko achieves a sustainably stronger profitability which is more commensurate with its higher risk unsecured lending in South Eastern European countries.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Addiko's ratings could be prompted by a higher BCA or a change in Addiko's liability structure that could prompt a better result from Moody's 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 macro profile were to improve, or if the bank were to develop a track record of sustainably stronger profitability, while continuing its divestments in non-core assets thereby improving its asset quality without compromising its level of risk coverage and improving its capitalisation.

A downgrade of Addiko's long-term ratings could be triggered following a downgrade of the bank's ba2 BCA.

Downward pressure on Addiko's BCA could be exerted in the event of a reversal of the positive trend in asset quality, which could be triggered by a weakening of macroeconomic growth prospects in South Eastern Europe; unexpected losses, including those from foreign currency lending and pending legal cases, which may negatively impact Addiko's capitalisation; and 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

..Affirmations:

...Long-term Counterparty Risk Assessment, affirmed Ba1(cr)

...Short-term Counterparty Risk Assessment, affirmed NP(cr)

...Long-term Counterparty Risk Ratings, affirmed Ba2

...Short-term Counterparty Risk Ratings, affirmed NP

...Long-term Bank Deposits, affirmed Ba3, outlook changed to Positive from Stable

...Short-term Bank Deposits, affirmed NP

...Baseline Credit Assessment, affirmed ba2

...Adjusted Baseline Credit Assessment, affirmed ba2

..Outlook Action:

...Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997> . Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions> .

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