MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 August 2022

Update

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RATINGS

Addiko Bank AG

Domicile	Vienna, Austria
Long Term CRR	Ba2
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	Positive

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.

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Addiko Bank AG

Update following rating affirmation

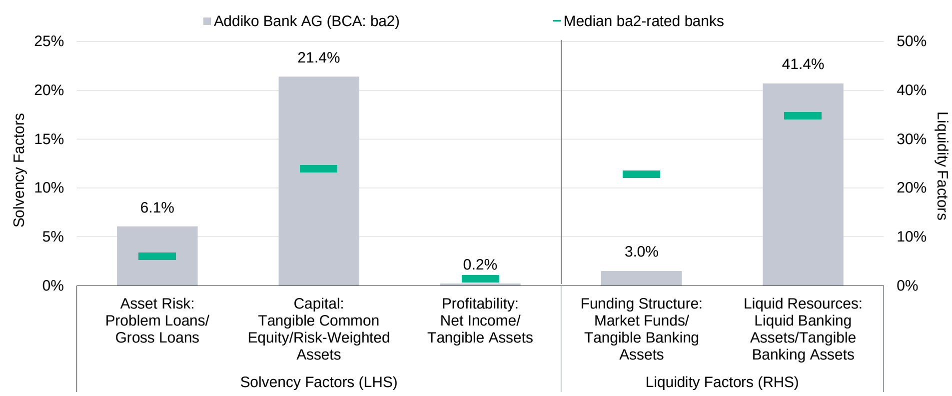
Summary

On 17 August, we affirmed Addiko Bank AG's (Addiko) long-term deposit ratings at Ba3 and changed the outlook to positive from stable. We also affirmed the bank's long-term Counterparty Risk Ratings at Ba2 and its Baseline Credit Assessment (BCA) and Adjusted BCA at ba2.

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. Addiko's ratings do not benefit from government support uplift because of its small size in the context of the Austrian banking system.

Addiko's ba2 BCA reflects its sound capitalization and stable funding profile, which balances its unsecured consumer lending activities in Central and South Eastern European (CSEE) countries that are more vulnerable to economic cycles. Addiko's asset quality and concentration risks have significantly improved as the bank reduced non-focus exposures. However, the bank's BCA is constrained by moderate profitability with an established but limited track record of resilience in a business cycle with prolonged economic downturn.

Exhibit 1
Rating scorecard – key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Established banking franchise in EU convergence regions with low financial intermediation, complemented by streamlined risk policies and declining legacy exposures ("non-focus areas")

» Stable funding profile supported by sizeable and granular deposits across CSEE countries which drives low market funding dependence

» Solid capitalization with ample buffers over regulatory minima, balanced by high vulnerability under stress and moderate earnings retention

Credit challenges

» Unsecured consumer lending in economically more volatile CSEE countries with around five years of financial history

» Moderate but improved level of problem loans with significantly reduced but remaining concentration risks, as well as unseasoned credit risks from high loan growth in core lending activities ("focus areas")

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

» Adequate liquidity, balanced by limited ability to shift it among subsidiaries due to local regulatory restrictions

Rating outlook

» The positive outlook reflects a scenario that Addiko's solvency profile develops stronger than anticipated, 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 CSEE countries.

Factors that could lead to an upgrade

» 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 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 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.

Factors that could lead to a downgrade

» A downgrade of Addiko's ratings could be triggered by a downgrade of its 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 CSEE; 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.

Key indicators

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

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	5.8	5.9	6.1	6.2	6.5	(2.6)[4]
Total Assets (USD Billion)	6.6	7.2	6.8	7.0	7.8	(4.0)[4]
Tangible Common Equity (EUR Billion)	0.8	0.8	0.8	0.8	0.8	(1.0)[4]
Tangible Common Equity (USD Billion)	0.9	1.0	0.9	0.9	1.0	(2.4)[4]
Problem Loans / Gross Loans (%)	5.5	6.2	6.5	9.3	13.5	8.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	21.4	19.9	17.7	18.1	17.4	18.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.5	22.1	25.0	32.3	45.1	28.8[5]
Net Interest Margin (%)	2.8	2.9	2.9	2.6	2.3	2.7[5]
PPI / Average RWA (%)	1.4	1.5	1.1	0.9	0.6	1.1[6]
Net Income / Tangible Assets (%)	0.2	0.0	0.5	1.0	0.6	0.5[5]
Cost / Income Ratio (%)	77.8	75.1	80.9	84.1	87.9	81.2[5]
Market Funds / Tangible Banking Assets (%)	3.0	3.4	4.0	5.4	5.7	4.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.4	36.9	33.5	35.9	40.7	37.7[5]
Gross Loans / Due to Customers (%)	74.1	81.5	85.6	86.1	83.7	82.2[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 Bank AG (Addiko) is a Vienna-based bank which specialises in standardized unsecured consumer and SME lending in Central and South Eastern Europe (CSEE) countries like Croatia, Slovenia, Bosnia and Herzegovina, Serbia, and Montenegro. Addiko is the parent bank and consolidates six bank subsidiaries in these CSEE countries. The group of banks serves around 0.8 million clients through a network of around 155 branches and digital banking channels, and is predominantly deposit funded. As of the end of March 2022, Addiko reported consolidated assets of €5.8 billion. In Austria and Germany, Addiko collects online deposits but does not provide lending solutions. At the end of 2021, Addiko's largest banking activities were in Croatia, accounting for around 39% of its consolidated assets, followed by Slovenia (24%), Bosnia and Herzegovina (17%) and Serbia (15%), while assets allocated to Montenegro were much smaller (4%).

Following the initial public offering (IPO) in July 2019, the majority of Addiko's shares are in free float, around 63%[2] as of 15 March 2022.

Macro Profile of "Moderate –"

Addiko's "Moderate -" asset-weighted Macro Profile reflects the group's majority exposure to countries in CSEE, with around two thirds of assets in EU countries Croatia (Baa2 stable) and Slovenia (A3 stable), and around one third in EU accession countries Bosnia and Herzegovina (B3 stable), Serbia (Ba2 stable), and Montenegro (B1 stable).

Detailed credit considerations

Moderate asset quality with reduced but remaining concentration risks, as well as unseasoned credit risks from high loan growth in core lending products

Addiko's assigned b2 score for Asset risk one notch below the bank's initial score. Our asset risk assessment for Addiko reflects high lending risks which arise from its focused business model on unsecured consumer lending in CSEE countries and further takes into account the remaining - but significantly reduced - concentration risks from performing non-core legacy exposures and non-performing exposures. Our view also considers the rather limited performance history of newly underwritten unsecured consumer loans, including to the micro SME segment, which have not yet experienced a full credit cycle.

Our assessment is balanced by the bank's prudent underwriting and risk management policies for new loans, as well as high and stable on-balance sheet loan-loss reserves, relative to non-performing loans, as expressed by Addiko's coverage ratio of 71% at the end of 2021.[3] In addition, our view incorporates the expectation of further improving asset quality as the bank increases lending to core customers and further reduces non-focus exposures. However, the inflationary pressure and rising interest rates, as well as supply chain disruptions and slowing economic growth in countries where Addiko is active will slow down the gradual improving trend.

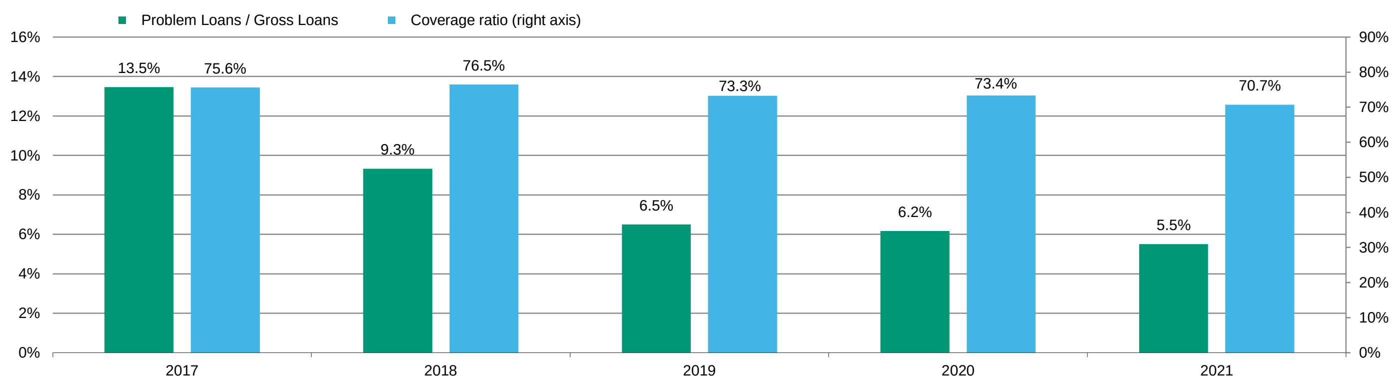
Addiko's asset quality in its focus (consumer and SME lending) and non-focus activities (mortgages, large corporates, public finance) consistently improved over the past years, as demonstrated by a declining problem loans to gross loans ratio of 5.5% at the end of 2021 (1Q22: 5.3%), compared with 6.2% in 2020 and 6.5% in 2019. We believe that Addiko's customers benefited from local government support programs and payment moratoria during the pandemic, which prevented defaults for potentially impacted loans, but have by now all matured.[4]

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.[5] The unresolved Law to compensate Swiss franc borrowers in Slovenia may also pose risks to Addiko's solvency if not stopped the country's Constitutional Court.

Exhibit 3

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

Data in percent



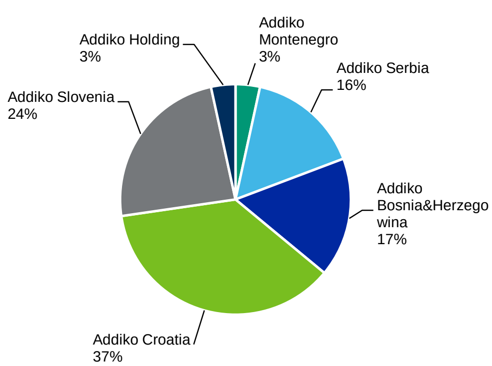
Note: The coverage ratio compares specific and generic loan-loss-reserves for Stage 3 loans to problem loans.
Source: Company reports, Moody's Investors Service

Addiko's banking activities are reflected in its €6.8 billion exposure at default at the end of 2021, a slight decrease of 2.3% when compared to €6.9 billion in 2020, driven by the bank's updated strategy to accelerate the wind-down of legacy assets (non-focus areas) and, at the same time, lend at increasing speed to core activities (focus areas). These exposures, which include unsecured consumer and SME lending, accounted for 49% of the bank's total credit exposures at the end 2021 (2020: 47%), and further increased to 51% at end-March 2022.

Exhibit 4

Credit exposures by country

Data in %, as of December 2021

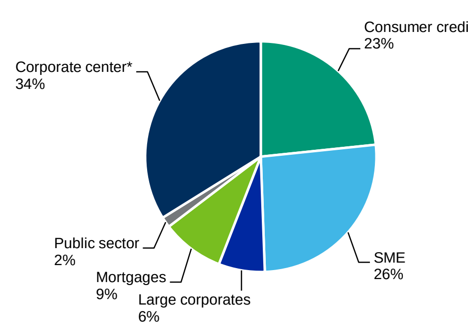


Note: *Includes financial institutions, central banks, and financial securities.
Source: Company reports, Moody's Investors Service

Exhibit 5

Credit exposures by segment

Data in %, as of December 2021



Source: Company reports, Moody's Investors Service

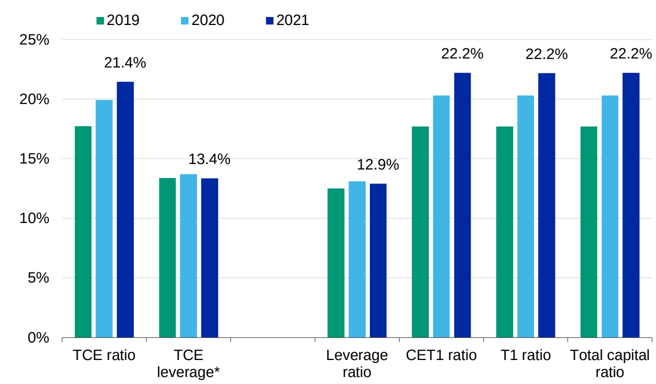
Solid capitalization with ample buffers over regulatory minima, balanced by high vulnerability under stress and moderate earnings retention

Addiko's assigned Capital score is baa2, two notches below its a3 initial score. The negative adjustment reflects our assessment of a moderate stress capital resilience because of the bank's high vulnerability from unsecured lending in economically more volatile CSEE countries and the pending litigation risks in Slovenia for Swiss franc-denominated loans, as well as limited earnings retention, reflecting a shareholder-friendly dividend policy.

Addiko's high capital vulnerability under adverse conditions is also visible by the results of the ECB's Comprehensive Assessment, published on 22 July, which included a stress test that the central bank applies to all financial institutions under its supervision.[6]In the adverse scenario, Addiko's Common Equity Tier 1 ratio declined around three times as much as the tested banks' average, to around 5.6%, compared with a starting point of 20.3%.

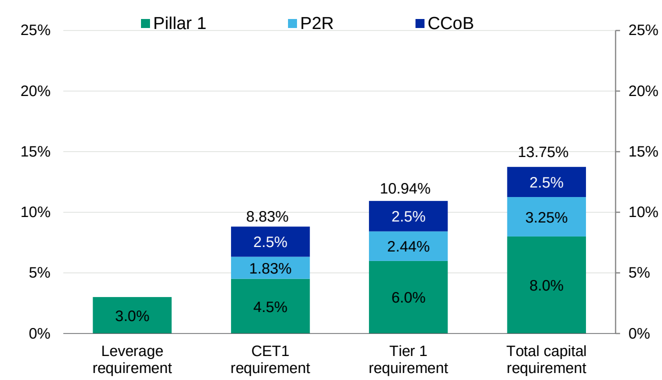
We consider Addiko's capitalisation solid in the context of its higher lending risks from unsecured consumer lending in CSEE countries. Our view is supported by the bank's Tangible Common Equity (TCE) to risk weighted assets (RWA) ratio, which increased to 21.4% at year-end 2021, compared with 19.9% in 2020, and a very high TCE leverage ratio of 13.4% (2020: 13.7%).[7] As Addiko executes its updated strategic growth plans, we expect a moderate decline in its capital ratios, reflecting rising lending to focus areas, balanced by freed-up capital from maturing legacy assets.

Exhibit 6
Addiko's capital ratios, grouped by Moody's versus regulatory view
Data in %



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 comfortably exceeds its regulatory minimum requirements
Data in %, applicable as of 1 March 2022



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

Our assessment also takes into account Addiko's ample distance to regulatory thresholds at group level. Based on the European Central Bank's updated requirements, which apply to Addiko since 1 March 2022, the bank's buffer above its Pillar 2 Total Capital requirement was around 4.6 percentage points (ppts) at end-March, up from 3.6 ppts at the end of 2021. The higher buffer reflects the bank's reduced Pillar 2 Guidance requirement of 2% of RWA, which was lowered by the ECB from 4%, previously assigned by Austria's Financial Market Authority.

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

We assign a b1 Profitability score, which is two notches higher than Addiko's initial score. Our assessment takes into account the bank's transformation program with an accelerated shift to core lending, including the expected benefits from efficiency measure. Our view is balanced by the declining earnings contribution from the wind-down of performing non-focus exposures, as well as the uncertainties on consumers' asset quality from rising interest rates and higher energy prices.

We believe that Addiko's business model is well positioned to benefit from the structural growth of financial intermediation in the CSEE countries, including customers' rising attention to digital products, leading to low incremental costs and additional revenue. Addiko's earnings are highly sensitive to credit costs and the bank's risk management need to maintain its conservative underwriting criteria, in particular as it expands into micro SME clients. The bank's pre-provision earnings capacity allows for a moderate ability to cover for weakening asset quality.

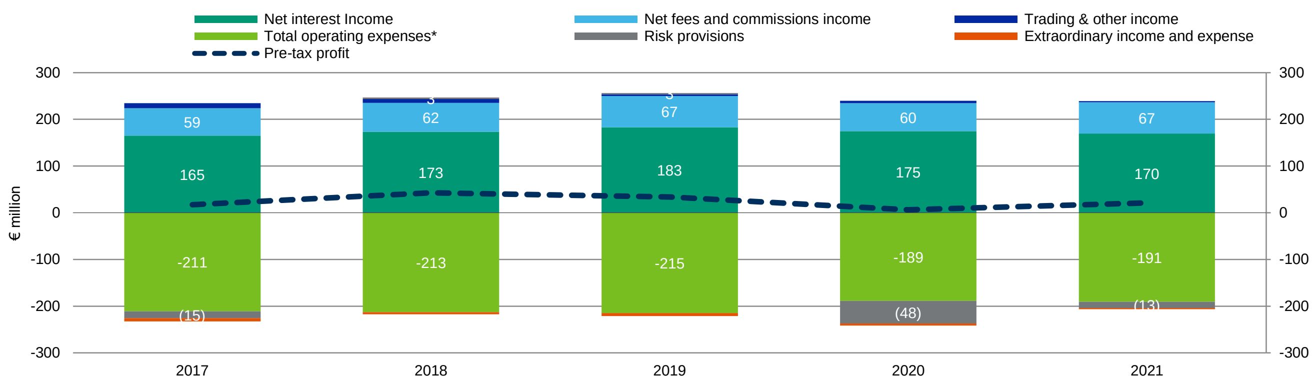
In 2021, Addiko reported net profit of around €14 million, compared with a net profit of €1.4 million in the year before. The main driver for the improved earnings were lower credit provisions, which decreased to around €13 million, compared with €48 million in 2020, reflecting weakening asset quality following the breakout of the pandemic.

Addiko's operating expenses remained broadly stable in 2021 at around to 171 million (2020: 170 million). Addiko's transformation program initiated in the first half of 2021 triggered around €5 million restructuring expenses, used to streamline its organization. The broadly similar sized extraordinary expenses in the year before reflected the closing of bank branches and management changes. In addition, Addiko reported other expenses of €21 million in 2021 and €8 million in 2020, which mainly reflected provisions for existing and expected legal cases, including legal proceedings in relation to Swiss franc mortgages in Croatia.

Exhibit 8

Addiko's profitability is reliant interest income and highly sensitive to credit costs

Data in € million



Note: *Total operating expenses include personnel and administrative expenses, as well as other expenses which mainly reflect legal provisions.

Source: Company reports, Moody's Investors Service

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

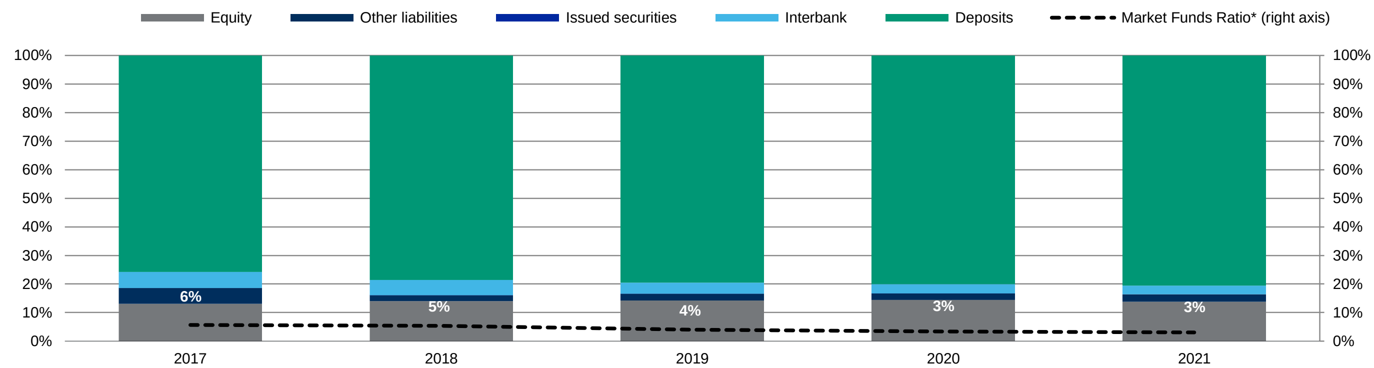
Addiko's sound and stable funding profile is reflected in the assigned baa1 Funding Structure score, one notch below its initial score. We expect that Addiko is able to maintain granular and growing deposits across jurisdictions, as it transforms to more focus lending and reduces exposures to non-focus customers who also contribute to Addiko's funding via sizeable deposits.

Deposits are Addiko's most important source of funding and the bank's low dependence on market funding strongly supports its financial profile. At the end of 2021, customer deposits represented around 81% of consolidated assets, up from 80% in 2020 and 79% in 2019. Over the same period, Addiko's gross-loan-to-deposit ratio improved to 74% in 2021, compared with 86% in 2019. Despite the bank's shift to consumer and SME lending, deposits from non-focus customers remained largely unchanged since 2018. Our view also considers a moderate concentration from the bank's largest depositors. We expect that Addiko will be able to further expand its deposit base, while the collection of online-generated deposits in Austria and Germany (combined around €383 million as of year-end 2021; 2020: €429 million) diversifies Addiko's funding sources from the current CSEE focus.

Our assessment of Addiko's low market funding dependence is underpinned by €177 million market funds, equivalent to 3.0% of assets as of end-2021, slightly down compared 3.4% in 2020, and mainly comprising liabilities to financial institutions and the participation in long-term refinancing operations with the Slovenian National Bank.

Addiko benefited from the decision of the Single Resolution Board (SRB) who now proposes a Multi-Point-of-Entry (MPE) approach, based on its Croatia subsidiary Addiko Bank d.d., compared with a Singe-Point-of-Entry (SPE) approach, previously contemplated on the basis of Addiko's consolidated financials. The SRB's MREL requirement of 26.13% of RWA for Addiko's standalone Croatian subsidiary must be complied with by 1 January 2022. Addiko is able to cover this requirement with local own funds and eligible liabilities.

Exhibit 9
Addiko's sizeable deposits drive a low market funding dependence
Liabilities in percent of tangible banking assets



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

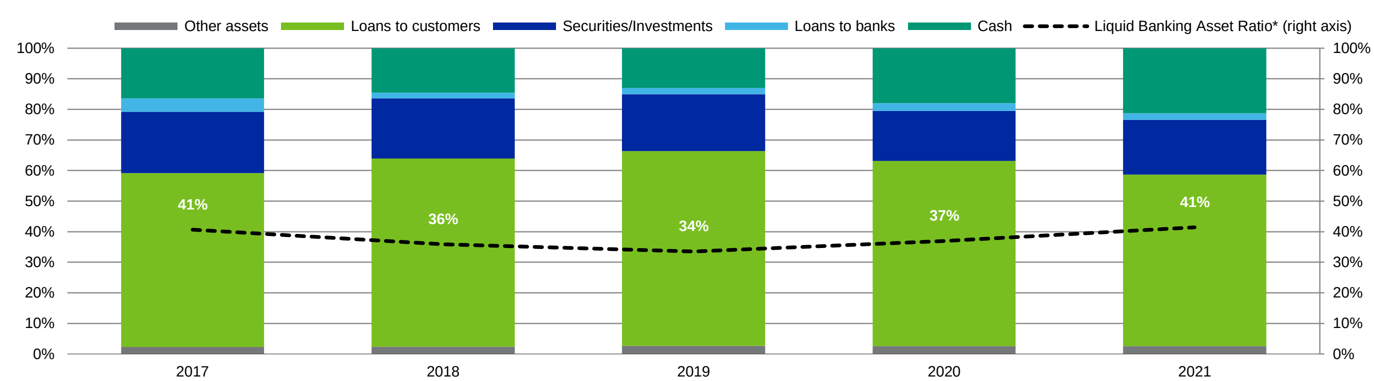
Improved liquidity which will be gradually reinvested into core lending, balanced by limited ability to shift among local subsidiaries due to regulatory restrictions

Addiko's Liquid Resources score is ba1, which includes a downward adjustment from its baa2 initial score. Our assessment reflects a moderate level of asset encumbrance and our expectation that the increased liquidity will gradually be invested in lending to focus areas. We further believe that Addiko's ability to shift liquidity among bank subsidiaries is limited due to local restrictions.

Addiko's liquidity assessment takes into account the bank's Liquid Banking Asset ratio of 41.2% as of year-end 2021, compared with 36.9% in 2020 and 33.5% in 2019. The main drivers are the bank's €1.4 billion cash (23% of assets) and €1.0 billion financial securities (17% of assets). Addiko's adequate liquidity buffers is also demonstrated by its consolidated 252% liquidity coverage ratio (LCR) as of year-end 2021 (2020: 209%).

Our view on Addiko's liquidity is somewhat balanced by a moderate level of asset encumbrance, reflecting very low central bank funding, almost exclusively at its Slovenian subsidiary, and its limited ability to move securities to different jurisdictions, which reduces the bank's flexibility to transfers, if need arises, because of local requirements. At the end of 2021, around 54% of Addiko's securities were physically booked at its Croatian subsidiary, while around 9% of the securities were hosted at the Vienna-based parent bank.

Exhibit 10
Addiko's liquidity reflects cash and high-quality financial securities
Assets in percent of tangible banking assets



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

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.[8] See our Environmental risk heat map for further information.

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 risk heat map for further information.[9] This assessment takes into account pending legal disputes around foreign currency-denominated loans in all CSEE countries where Addiko is present.

Governance[10] 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 CSEE subsidiaries out of scope for the resolution authorities. 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 small size in the context of the Austrian banking sector.

Counterparty Risk Ratings (CRRs)

Addiko's CRRs are Ba2/N-P

The bank's long-term CRR, before government support, is in line with the bank's ba2 Adjusted BCA, reflecting the moderate loss given failure from the low volume of instruments, primarily senior unsecured, which are subordinated to CRR liabilities in our Advanced LGF analysis.

Counterparty Risk (CR) Assessment

Addiko's CR Assessments are Ba1(cr)/N-P(cr)

The bank's long-term CR Assessment is one notch above the bank's ba2 Adjusted BCA, based on the substantial buffer against default provided to the senior counterparty obligations by more junior instruments, such as senior unsecured debt and dated subordinated debt. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we use in rating Addiko Bank AG was Banks Methodology, published in July 2021.

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		6.1%	b1	↔	b2	Sector concentration	Unseasoned risk
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		21.4%	a3	↔	baa2	Stress capital resilience	Risk-weighted capitalisation
Profitability							
Net Income / Tangible Assets		0.2%	b3	↔	b1	Expected trend	Return on assets
Combined Solvency Score			ba2		ba2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		3.0%	a3	↔	baa1	Deposit quality	Expected trend
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		41.4%	baa2	↔	ba1	Intragroup restrictions	Stock of liquid assets
Combined Liquidity Score			baa1		baa2		
Financial Profile					ba1		
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					baa3 - ba2		
Assigned BCA					ba2		
Affiliate Support notching					0		
Adjusted BCA					ba2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	596	59.1%	623	61.7%
Deposits	383	37.9%	356	35.3%
Preferred deposits	345	34.1%	327	32.4%
Junior deposits	38	3.8%	29	2.8%
Equity	30	3.0%	30	3.0%
Total Tangible Banking Assets	1,009	100.0%	1,009	100.0%

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	5.8%	5.8%	5.8%	5.8%	0	0	0	0	0	ba2
Counterparty Risk Assessment	5.8%	5.8%	5.8%	5.8%	1	1	1	1	0	ba1 (cr)
Deposits	5.8%	3.0%	5.8%	3.0%	-1	-1	-1	-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	0	0	ba2	0	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1(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	Positive
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(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 Before the IPO, Al Lake, which bought the CSEE banking franchise from Hypo Alpe-Adria Bank International AG in 2015, was the bank's sole owner.

3 In addition, Addiko had set aside allowances of around €75 million for exposures considered Stage 1 and Stage 2 loans as of year-end 2021, in accordance with international accounting standard IFRS 9.

4 At the end of 2021, around €2.4 million of Addiko's total exposures remained affected by moratoria, a significant improvement compared to €164 million at the end of 2020 (equivalent to 3.4% of its total exposures) and around €1.0 billion or 20% in June 2020. Aalmost all of these exposures in moratoria related to customers in Croatia, Slovenia, and Montenegro at the end of 2021.

5 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.

6 Addiko became subject to an asset quality review (AQR) and a stress test since the ECB took over the regulatory oversight from Austria'S FMA on 1 January 2022.

7 The TCE leverage ratio compares TCE to tangible assets.

8 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.

9 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.

10 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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