

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's upgrades Hellenic Bank's deposit ratings to Ba3 from B1, with positive outlook

20 Apr 2022

Limassol, April 20, 2022 -- Moody's Investors Service ("Moody's") has today upgraded Hellenic Bank Public Company Ltd's (Hellenic Bank) long-term deposit ratings to Ba3 from B1, its senior unsecured, junior senior unsecured and subordinate MTN program ratings to (P)B3 from (P)Caa1, its long-term Counterparty Risk Ratings (CRRs) to Ba2 from Ba3, its long-term Counterparty Risk Assessment (CRA) to Ba2(cr) from Ba3(cr) and its Baseline Credit Assessment (BCA) and Adjusted BCA to b2 from b3. The outlook on the bank's long-term deposit ratings is positive.

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

RATINGS RATIONALE

The upgrade of Hellenic Bank's ratings and assessments reflects the significant improvement in the bank's asset quality following its agreement to sell a portfolio of nonperforming exposures (NPEs) with a gross book value of €720 million to an entity managed and advised by Pacific Investment Management Company LLC (PIMCO), a global fixed-income investment manager. The bank expects to complete the transaction, which is subject to regulatory approvals, by the end of 2022.

Moody's expects the transaction will be concluded, which will reduce Hellenic Bank's stock of NPEs to a pro-forma 11.6% of gross loans as of December 2021, from 21.3% as of September 2021. Excluding the NPEs that are guaranteed by the government, the bank's NPEs/gross loans ratio is lower, at 4.4%. The NPE ratio drops further to 3.4% (excluding NPEs guaranteed by the government) by also incorporating a recent acquisition of performing loans from another domestic bank and other small NPE disposals, a figure that is close to Hellenic Bank's strategic medium-term target of an NPE ratio of around 3.0%. The coverage of residual NPEs (excluding those guaranteed by the government) is relatively high at 69% as of December 2021, pro-forma for the sale.

The NPE sale transaction is capital accretive adding 15 basis points to Hellenic Bank's Common Equity Tier 1 (CET1) ratio upon completion, based on December 2020 figures. Following the completion of the transaction, risks to capital from legacy NPEs will have significantly receded for Hellenic Bank, with the bank's residual net NPEs (excluding those guaranteed by the government) accounting for 6% of CET1 capital, based on pro-forma September 2021 data. Moody's expects Hellenic Bank's CET1 ratio to be around 18%, following the transaction and also incorporating the impact of the full acquisition of performing loans.

The transaction has a total value of €357 million and comprises the securitisation of the NPE portfolio and the sale of Hellenic Bank's debt servicing platform, APS Debt Servicer. Hellenic Bank will retain 66.7% of the Senior Note and 5% of each of the Mezzanine and Junior Notes of the securitisation[1].

Hellenic Bank's ratings continue to also capture its strong, retail deposit-based funding and ample liquid assets. At the same time, the ratings capture elevated residual asset quality risks, in the context of the still fragile post-pandemic economic recovery, with lower economic growth than previously expected, following Russia's invasion of Ukraine and considerable downward risks.

Hellenic Bank's Ba3 deposit ratings remain positioned at two notches above its BCA, driven by the protection that Moody's expects will be afforded to depositors from more loss-absorbing junior securities, based on the rating agency's forward-looking Advanced Loss Given Failure analysis. This analysis incorporates the bank's planned upcoming MREL (minimum requirement for own funds and eligible liabilities) eligible debt issuances over the coming years. We expect the bank to successfully proceed with issuances in the next three years of at least 5% of Risk-Weighted Assets (RWAs), to meet its binding minimum MREL requirement of 24.1% of RWA (excluding the combined buffer requirement)[2] by year-end 2025.

RATINGS OUTLOOK

The positive outlook on Hellenic Bank's long-term deposit ratings reflects Moody's expectations that Hellenic

Bank will continue to reduce total NPEs, while maintaining capital and liquidity buffers well above regulatory minimums.

The positive outlook also reflects the possibility of further improvement in the operating environment which could lead to Moody's concluding that a lower portion of the bank's liabilities are at a risk of loss in a resolution. This would be reflected in Moody's assigning a higher macro profile score for Cyprus.

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

All of Hellenic Bank's ratings could be upgraded if Hellenic Bank manages to further improve its asset quality and to strengthen its profitability, while maintaining solid capital and liquidity metrics. The ratings could also be upgraded if Moody's concludes that the impact of the coronavirus pandemic and Russia's invasion of Ukraine will not leave any lasting damage on the Cypriot economy, which may in turn lead Moody's to decide that a lower portion of the bank's liabilities are at a risk of loss in a resolution.

Given the positive outlook, it is unlikely that there will be a downgrade to the bank's ratings in the next 12-18 months. The positive outlook could be changed back to stable if Moody's expects the bank to experience a significant weakening in its capital and overall solvency profile, possibly as a consequence of prolonged economic disruption.

LIST OF AFFECTED RATINGS

..Issuer: Hellenic Bank Public Company Ltd

Upgrades:

-Adjusted Baseline Credit Assessment, Upgraded to b2 from b3
-Baseline Credit Assessment, Upgraded to b2 from b3
-Long-term Counterparty Risk Assessment, Upgraded to Ba2(cr) from Ba3(cr)
-Long-term Counterparty Risk Ratings, Upgraded to Ba2 from Ba3
-Senior Unsecured Medium-Term Note Program, Upgraded to (P)B3 from (P)Caa1
-Junior Senior Unsecured Medium-Term Note Program, Upgraded to (P)B3 from (P)Caa1
-Subordinate Medium-Term Note Program, Upgraded to (P)B3 from (P)Caa1
-Long-term Bank Deposit Ratings, Upgraded to Ba3 from B1, Outlook Remains Positive

Affirmations:

-Short-term Counterparty Risk Assessment, Affirmed NP(cr)
-Short-term Counterparty Risk Ratings, Affirmed NP
-Short-term Bank Deposit Ratings, Affirmed NP

Outlook Action:

-Outlook, Remains Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.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 at: <https://www.moody.com/researchdocumentcontentpage.aspx?>

[docid=PBC_79004](#).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

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REFERENCES/CITATIONS

[1] See Project Starlight – Agreement for the sale of a non-performing exposures portfolio and for the sale of APS Debt Servicer dated 11 April 2022

[2] See Hellenic Bank's Interim Condensed Consolidated Financial Statements For the six month period ended 30 June 2021 dated 24 September 2021

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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