

### CREDIT OPINION

27 August 2024

Update



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#### RATINGS

##### Hypo-Bank Burgenland AG

Domicile	Austria
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
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

Andrea Wehmeier +49.69.70730.782  
VP-Senior Analyst  
andrea.wehmeier@moodys.com

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

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

#### CLIENT SERVICES

Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
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## Hypo-Bank Burgenland AG

Update to credit analysis - Positive outlook on issuer ratings

### Summary

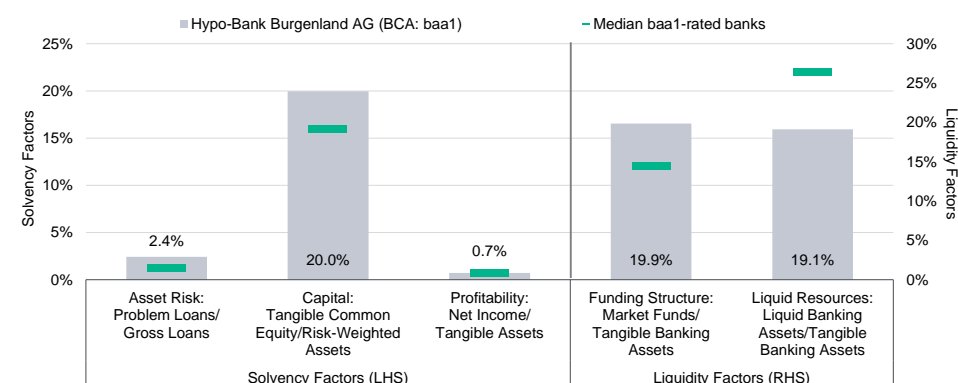
[Hypo-Bank Burgenland AG's](#) (Bank Burgenland) A2 deposit and A3 issuer ratings reflect the bank's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA and the application of our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class and results in two notches of rating uplift for the bank's deposit ratings and one notch of uplift for its issuer ratings. We do not incorporate any rating uplift from government support to Bank Burgenland because of the bank's small size in the context of the Austrian banking system.

Bank Burgenland's baa1 BCA reflects the bank's very strong capitalisation, which in combination with its good profitability mitigates existing asset risks stemming from geographic and sector concentrations to cyclical commercial real estate activities as well as significant market and operational risks from its private banking business and guarantees provided to its parent, linked to insurance products. It further reflects a strengthened and primarily deposit-based funding profile and a sound volume of liquid resources, but also considers some execution risks related to the planned acquisition of parts of Anadi Bank AG's (Anadi) retail and SME business, expanding Bank Burgenland's geographical footprint into Carinthia.

Exhibit 1

#### Rating Scorecard - Key financial ratios

Bank Burgenland



Source: Company and Moody's Ratings

## Credit strengths

- » Strong capitalisation
- » Sound profitability
- » Limited market funding reliance

## Credit challenges

- » Concentration risks in highly cyclical CRE
- » Significant market risk
- » Some execution risks around the planned acquisition of Anadi Bank AG's activities

## Outlook

- » The stable outlook on Bank Burgenland's long-term deposit ratings reflects our view that potential headwind caused by continued modest economic growth and the impact of higher rates on the debt servicing capacity of corporates and households will not impair Bank Burgenland's financial strength. Further, we expect no material change in the liability structure such that it was to result in a different deposit rating uplift from our Advanced LGF analysis.
- » The positive outlook on the long-term issuer ratings reflects the potential for an increase in rating uplift for this liability class from our Advanced LGF analysis, provided that higher volumes of senior unsecured debt in issuance prove to be more permanent.

## Factors that could lead to an upgrade

- » Bank Burgenland's ratings could be upgraded if the bank's BCA is upgraded, or upon a change in the bank's liability structure that results in lower expected losses for creditors, particularly if senior unsecured debt components were to account for a sustainably higher share of Bank Burgenland's total liabilities.
- » Bank Burgenland's BCA could be upgraded if the bank was to strengthen its solvency, in particular if it sustainably reduces its non-lending risks, while at least maintaining its liquidity profile.

## Factors that could lead to a downgrade

- » Bank Burgenland's ratings could be downgraded if its BCA was to be downgraded. In addition, a downgrade could result from a significant decrease in the volume of senior unsecured liabilities relative to its tangible assets such that it increases the loss severity of respective instrument classes.
- » Bank Burgenland's BCA could be downgraded in case of a significant weakening of its solvency or liquidity, or in case we were to observe meaningful risk management failures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### Hypo-Bank Burgenland AG (Consolidated Financials) [1]

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (EUR Billion)	6.5	6.8	6.5	6.2	5.6	3.9 <sup>4</sup>
Total Assets (USD Billion)	7.2	7.3	7.4	7.6	6.3	3.5 <sup>4</sup>
Tangible Common Equity (EUR Billion)	0.8	0.8	0.8	0.7	0.7	4.9 <sup>4</sup>
Tangible Common Equity (USD Billion)	0.9	0.8	0.9	0.9	0.8	4.5 <sup>4</sup>
Tangible Common Equity / Risk Weighted Assets (%)	20.0	17.9	16.0	16.8	16.9	17.5 <sup>5</sup>
PPI / Average RWA (%)	3.3	1.7	1.6	1.6	1.1	1.9 <sup>5</sup>
Net Income / Tangible Assets (%)	0.9	0.5	0.8	0.8	0.9	0.8 <sup>5</sup>
Cost / Income Ratio (%)	50.8	61.8	65.0	65.1	75.8	63.7 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	19.9	21.2	22.1	20.9	19.8	20.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	19.1	20.3	20.1	20.5	14.8	19.0 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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 Basel III periods. [6] Simple average of periods for the latest accounting regime.

Sources: Moody's Ratings and company filings

## Profile

Bank Burgenland is a regional bank, headquartered in Eisenstadt (Austria), with select activities in Hungary, Slovakia and Germany. Bank Burgenland is 100% owned by Grazer Wechselseitige Versicherung AG (GRAWE Group<sup>1</sup>), an Austrian insurance group, and consolidates multiple entities operating under their own brand names.

Bank Burgenland is a universal bank with a focus on corporate banking, particularly for small and medium-sized enterprises (SMEs) and the real estate sector, and held total assets of €6.5 billion as of 31 December 2023. Further, Bank Burgenland offers retail banking, private banking and asset management services.

On 21 December 2023, [Bank Burgenland announced plans](#) to take over significant parts of Anadi's activities, including all branches (10 locations) serving around 42,000 retail and 250 SME customers with a total business volume of €1.7 billion. The closing of the transaction is expected for September 2024, after regulatory approvals.

## Macro Profile of Strong+

Bank Burgenland's BCA is supported by its Strong+ Macro Profile, which is derived from the group's weighted average credit exposures, largely towards [Austria](#) (Aa1, stable) with minor holdings in central Europe and other countries. Bank Burgenland's Strong+ Macro Profile, therefore, matches the assigned Austrian Macro Profile.

## Detailed credit considerations

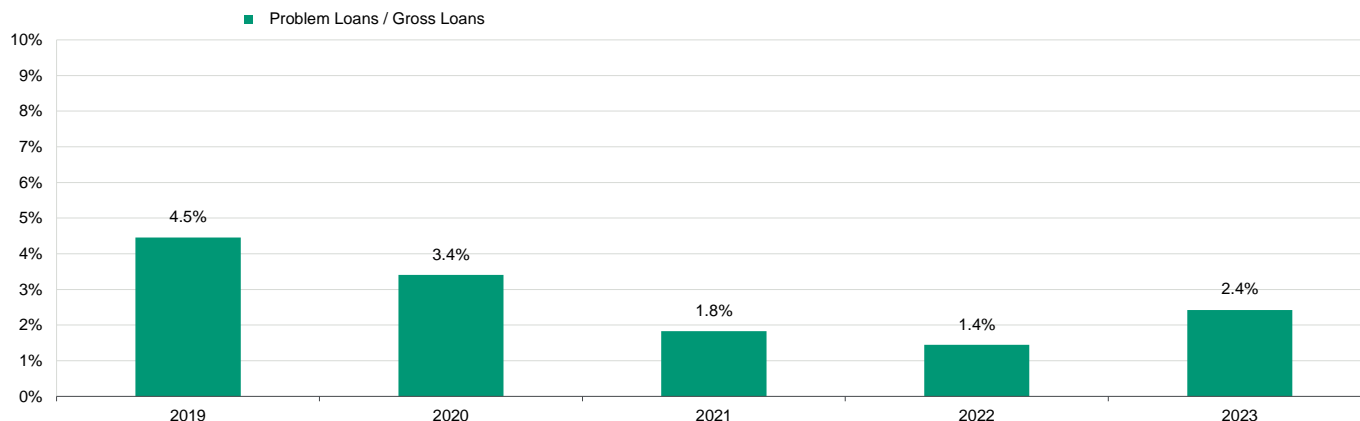
### Asset quality has started to deteriorate moderately, concentration and market risks imply tail risks

We assign an Asset risk score of ba1 to reflect the bank's concentration risk in commercial real estate (CRE) and significant lending exposures to SMEs in Burgenland, exposing the bank to a prolonged downturn in the commercial real estate market as well as to the anemic economic development in Austria. The score also captures the bank's exposure to market risk linked to guarantees the bank provides to its ultimate parent GRAWE Group and potential operational challenges from the integration of the Anadi operations.

Bank Burgenland's asset risk largely stems from its loan book accounting for 68.8% of its total assets. We expect a further deterioration in asset quality during 2024, particularly for CRE, but also for corporate lending, in particular SMEs. This will likely be driven by a combination of slow economic growth and higher interest rates, which is likely to strain the ability of both retail and corporate customers to service their debt.

Bank Burgenland's significant exposure to highly cyclical CRE lending activities represents a multiple of its equity. Although the portfolio is focused on the relatively stable housing sector, significant tail risks exist owing to the sector's [continued credit quality erosion and rising refinancing challenges](#). SMEs are meaningfully exposed to economic volatility since they have limited options in dealing with economic challenges, largely owing to their limited geographical reach and international presence.

Exhibit 3

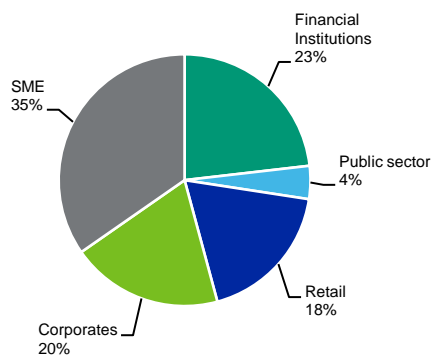
**The bank's sound asset quality started to deteriorate in 2023**

Sources: Company and Moody's Ratings

Further, to the aforementioned credit risks, Bank Burgenland's market risk is higher than that of its peers, reflecting the tail risk stemming from guarantees related to insurance products issued by its parent. The market risk arises from the bank providing a guarantee for the invested capital to cover potential shortfalls in case the underlying asset performance or evaluation falls below a certain value. Such a guarantee is rather typical for the insurance sector, yet not for a regional banking franchise being part of a larger insurance group.

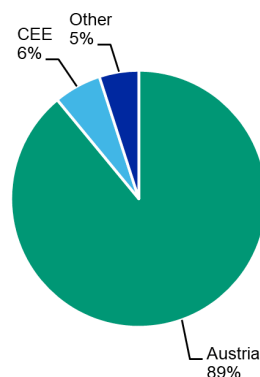
Bank Burgenland's asset management and private banking activities conducted via its Schelhammer Capital subsidiary are a balancing factor. These activities generate additional recurring fee and commission income, thereby stabilising and diversifying the bank's earnings streams and profitability. We regard related market, operational and litigation risks typical for such activities as relatively remote, also given the limited size of the bank's private banking activities.

Exhibit 4

**Bank Burgenland's loan book mainly includes SMEs, whereas its credit exposure to large corporates is limited**

Sources: Company and Moody's Ratings

Exhibit 5

**Bank Burgenland's operations are mainly concentrated in Austria**

Sources: Company and Moody's Ratings

**Sound capital ratios provide strong buffers**

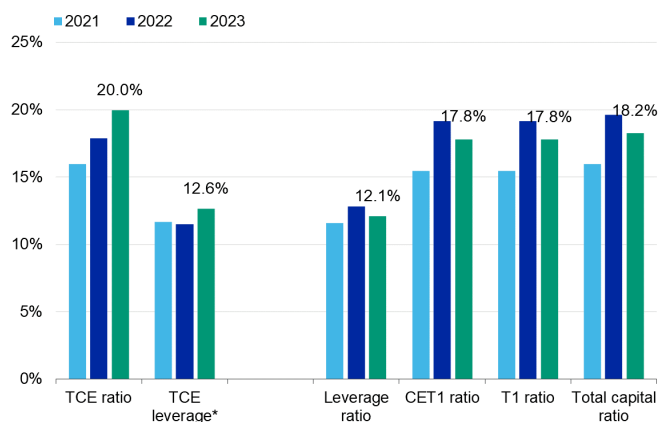
We assign a Capital score of aa3, one notch below the initial score. The assigned score reflects the bank's sound capitalisation, which provides good investor protection against the aforementioned tail risks. It also incorporates our expectation that risk-weighted assets (RWA) will rise gradually as asset quality has started to deteriorate and absorbing the impact of the Anadi takeover.

Bank Burgenland's capital ratio, measured as tangible common equity (TCE)/RWA stood at 20.0% as of 31 December 2023, up 210 basis points year-over-year (Exhibit 6). The Common Equity Tier 1 (CET1) capital ratio and Tier 1 capital ratio decreased to 17.8% (2022: 19.1%), mainly driven by higher regulatory deductions. The total capital was 18.2% of RWA as of year-end 2023, also well above minimum regulatory requirements.

The bank's sound capital position is underlined by its robust leverage ratio of 12.1% and a very high risk density, with RWA accounting for 63% of total assets as of year-end 2023, according to the standardized approach for measuring risk weights. The bank further benefits from its good profitability and limited payouts of profits to its parent. This supports the bank's fairly strong capital generation capacity, which should enable it to absorb potential increases in RWA without impairing its capital position.

Exhibit 6

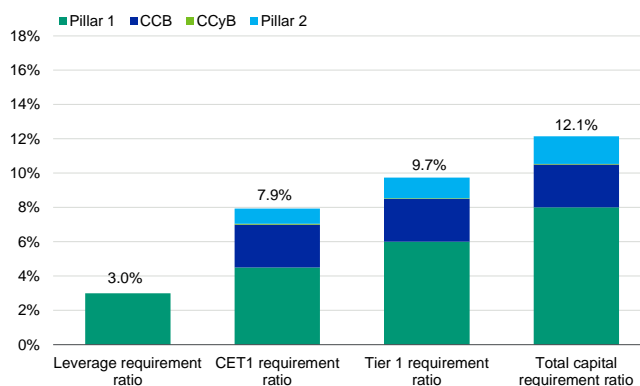
**Bank Burgenland's capital ratios remain strong**  
Capital as a percentage of RWA; leverage ratio as a percentage of tangible assets



TCE = Tangible common equity; CET1 = Common Equity Tier 1; the TCE leverage ratio compares TCE with tangible banking assets.  
Sources: Company and Moody's Ratings

Exhibit 7

**Bank Burgenland exceeded its regulatory capital requirement as of year-end 2023**  
As a percentage of RWA



CCoB = capital conservation buffer; CCyB = countercyclical capital buffer.  
Sources: Company and Moody's Ratings

The bank's capital requirements do not include a countercyclical buffer (CCyB), as the Austrian regulator FMA has no such CCyB requirements in place nor did it implement additional sectoral buffers related to residential lending. However, it imposed stricter lending criteria as of July 2022.

### Strong profitability is supported by a diversified earnings profile

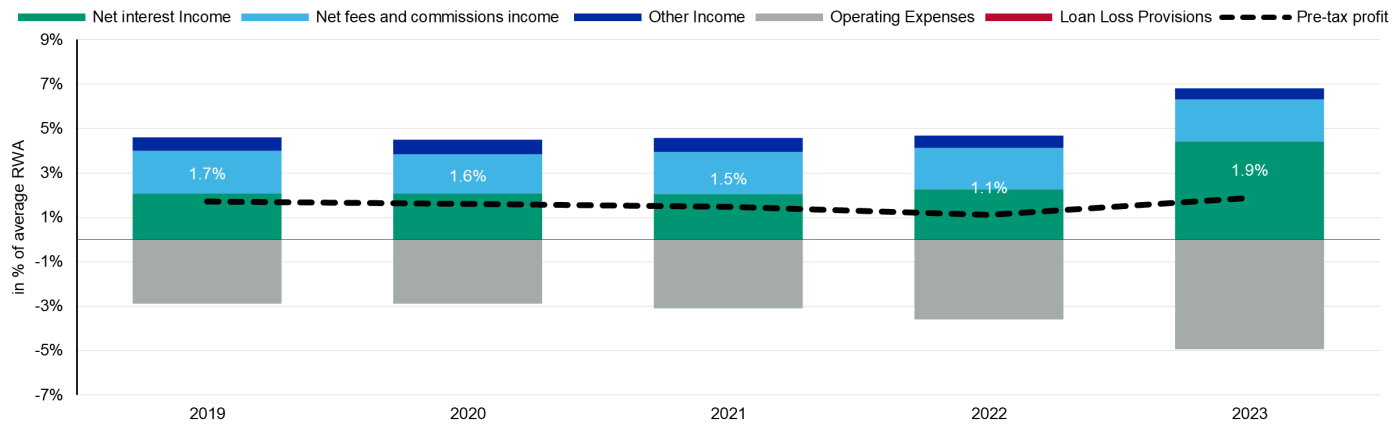
We assign a Profitability score of baa2 to Bank Burgenland, in line with the initial score and reflective of the bank's sound capital generation capacity.

The group's earnings are more diversified than that of its closest domestic peers, reflecting the bank's meaningful private banking and asset management activities. Net interest income benefitted from higher rates, since most of the loan book repriced quickly based on variable rates. However, cost and risk management will be decisive to defend profitability going forward, particularly in an environment of limited economic growth, with the planned Anadi takeover providing a further challenge. The asset management and private banking businesses face additional pressures from the market slowdown and related volatilities.

Exhibit 8

### Bank Burgenland maintains a diversified earnings stream and benefits from the positive interest environment, offsetting higher expenses

Data in € million



Operating expenses include personnel expenses, administrative costs, deposit insurance fees and systemic risk charges, and depreciation and amortisation.

Sources: Company and Moody's Ratings

### Strong deposit base is supported by the bank's covered bond franchise

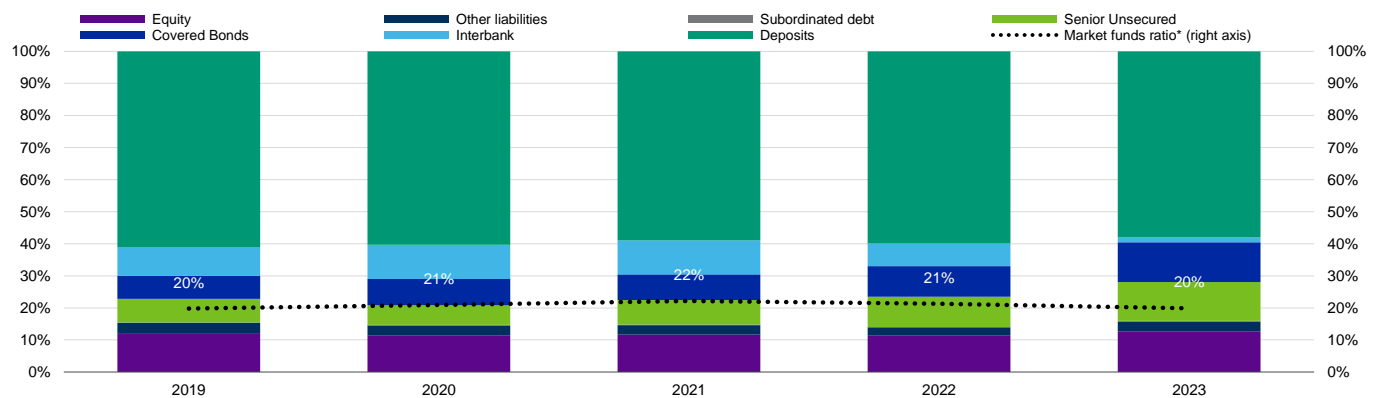
We assign a Funding score of baa1 to Bank Burgenland, one notch below the initial a3 score, reflecting the bank's contained market funding dependence.

Bank Burgenland remains largely funded by customer deposits amounting to €3.8 billion or 58% of total assets as of year-end 2023. These granular deposits display limited concentrations to single clients, reducing the risk of sudden and potentially large outflows. However, the bank's loan-to-deposit ratio stood at 119%, exposing it to confidence-sensitive market funding sources to refinance parts of its lending operations and limiting its flexibility in case of unexpectedly large deposit outflows. The bank's market funding is comprised of interbank liabilities of €0.1 billion – down substantially from the previous year as the bank redeemed its TLTRO funds borrowed – as well as covered bond funding of €0.8 billion and senior unsecured liabilities of €0.8 billion.

Exhibit 9

### Bank Burgenland mainly relies on deposit funding

As a percentage of tangible banking assets



\*Market funds ratio = Market funding/tangible banking assets.

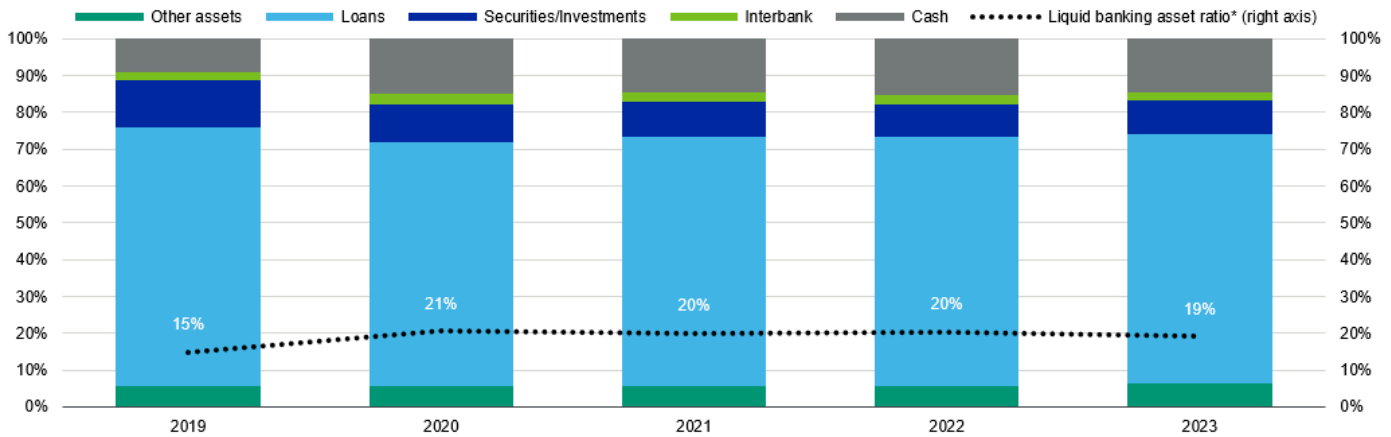
Sources: Company and Moody's Ratings

### Liquidity is sound

We assign a Liquid Resources score of baa2, reflecting the bank's good liquid reserves.

Bank Burgenland's liquid resources, mainly held in cash and cash equivalents (€0.9 billion), account for 15% of tangible banking assets. The bank also holds a small repo-eligible securities portfolio of €0.2 billion and interbank assets of €0.1 billion. The latter declined 11% year-over-year because of the termination of the TLTRO programme and related simultaneous reduction of related assets and liabilities. Bank Burgenland's LCR of 199% and NSFR of 125%, both as of year-end 2023, stood well above the required minima.

Exhibit 10  
**Bank Burgenland maintains sufficient liquidity**  
Asset breakdown as a percentage of tangible assets

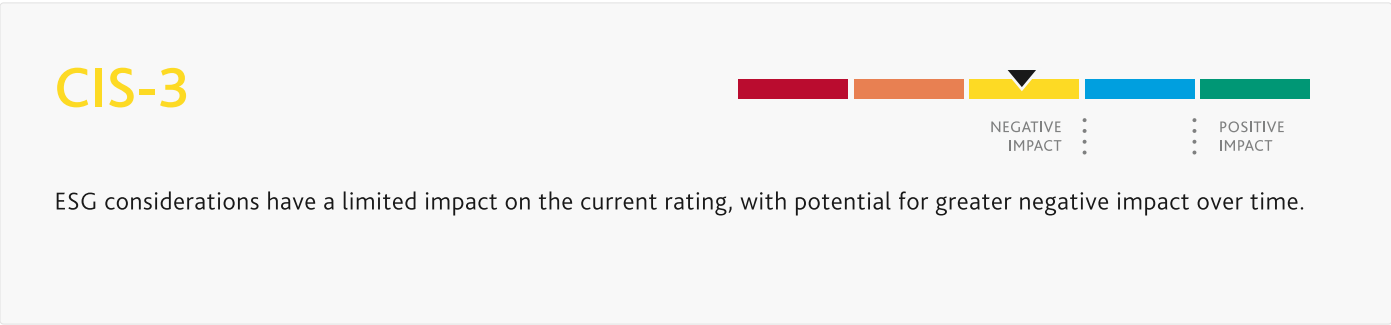


\*Liquid banking assets ratio = Liquid assets/tangible banking assets.  
Sources: Company and Moody's Ratings

ESG considerations

Hypo-Bank Burgenland AG's ESG credit impact score is CIS-3

Exhibit 11  
**ESG credit impact score**

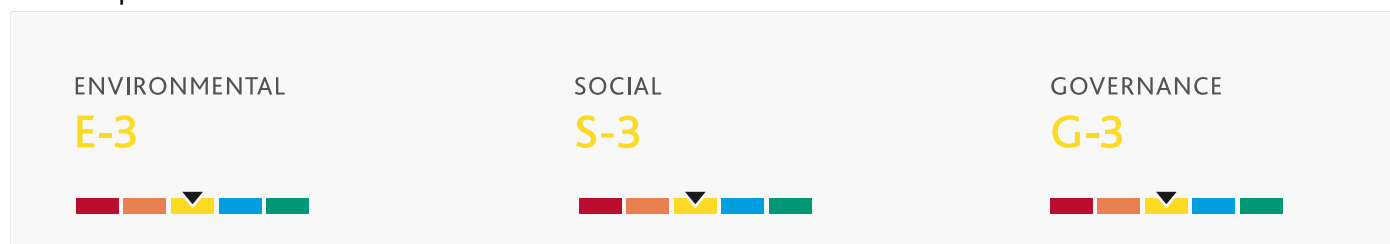


Source: Moody's Ratings

Hypo-Bank Burgenland AG' (Bank Burgenland) **CIS-3** indicates limited impact of ESG considerations on the ratings to date, with potential for greater negative impact over time, mostly related to the management's less proactive risk and capital management in comparison with peers. Environmental and social factors have a limited credit impact on the ratings to date.

Exhibit 12

## ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Bank Burgenland faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a regional, diversified bank. In line with its peers, Bank Burgenland is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Bank Burgenland is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks and tries to align its business with the transition to a low-carbon economy.

### Social

Bank Burgenland faces moderate social risks mainly related to customer relations as well as to demographic and societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Bank Burgenland operates mostly in Austria, which faces challenges from adverse demographic trends affecting long-term economic growth prospects and impacting the demand for certain banking products. Product diversity as well as an ability to adapt to consumer preferences, regulatory changes and societal trends such as digitization are key to address these risks.

### Governance

Bank Burgenland faces moderate governance risks, reflecting the bank's sound profitability and limited loan losses, despite elevated market and non-lending credit risks that go beyond the typical profile of a regional banking franchise. The bank's risk management, policies and procedures are largely in line with industry practices, and commensurate with its universal banking model, though risk and capital management are less proactive in comparison with peers. Bank Burgenland is owned by the mutualist insurance group Grazer Wechselseitige Versicherung AG (GRAWE Group, 100%), which is reflected in the composition of its board of directors, that includes representatives of the owner next to employee representatives. A number of independent board members and Austria's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Government support considerations

The introduction of the BRRD has demonstrated a reduction in the willingness of the EU governments to bail out banks because it severely restricts the conditions under which authorities can use public money to fund a bank recapitalisation. We expect most failing banks to be resolved without governments providing financial support. This approach to support will be broadly consistent throughout the EU because the BRRD provides little room for national discretion.

Therefore, Bank Burgenland's ratings do not benefit from government support uplift, given its small size in the context of the Austrian banking system.



### Loss Given Failure (LGF) analysis

Bank Burgenland is subject to the EU BRRD, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter a resolution. We apply our standard assumptions.

The following are the results of our Advanced LGF analysis:

- » For the bank's deposit ratings, our LGF analysis indicates a very low loss given failure, leading to a two-notch rating uplift from the bank's baa1 Adjusted BCA.
- » For the bank's issuer ratings, our LGF analysis indicates a low loss given failure, leading to a one-notch rating uplift from the bank's baa1 Adjusted BCA.

### Methodology and scorecard

The principal methodology used is the [Banks Methodology](#), published in March 2024.

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the outcome of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard outcome 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 13

### Rating Factors

Macro Factors												
Weighted Macro Profile			Strong +		100%							
Factor			Historic Ratio	Initial Score	Expected Trend	Assigned Score		Key driver #1		Key driver #2		
Solvency												
Asset Risk												
Problem Loans / Gross Loans			-	-	-	ba1		Sector concentration		Market risk		
Capital												
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)			20.0%	aa2	↔	aa3		Risk-weighted capitalisation		Expected trend		
Profitability												
Net Income / Tangible Assets			0.7%	baa2	↔	baa2		Return on assets		Expected trend		
Combined Solvency Score				a2		baa1						
Liquidity												
Funding Structure												
Market Funds / Tangible Banking Assets			19.9%	a3	↔	baa1		Extent of market funding reliance		Expected trend		
Liquid Resources												
Liquid Banking Assets / Tangible Banking Assets			19.1%	baa2	↔	baa2		Stock of liquid assets		Expected trend		
Combined Liquidity Score				baa1		baa1						
Financial Profile						baa1						
Qualitative Adjustments						Adjustment						
Business Diversification						0						
Opacity and Complexity						0						
Corporate Behavior						0						
Total Qualitative Adjustments						0						
Sovereign or Affiliate constraint						-						
BCA Scorecard-indicated Outcome - Range						a3 - baa2						
Assigned BCA						baa1						
Affiliate Support notching						0						
Adjusted BCA						baa1						
Balance Sheet				in-scope (EUR Million)		% in-scope		at-failure (EUR Million)		% at-failure		
Other liabilities				1,736		26.7%		2,122		32.6%		
Deposits				3,777		58.0%		3,392		52.1%		
Preferred deposits				2,795		42.9%		2,655		40.8%		
Junior deposits				982		15.1%		736		11.3%		
Senior unsecured bank debt				789		12.1%		789		12.1%		
Dated subordinated bank debt				10		0.2%		10		0.2%		
Equity				195		3.0%		195		3.0%		
Total Tangible Banking Assets				6,508		100.0%		6,508		100.0%		
Debt Class			De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned		
			Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF		
			volume +	ordination	volume +	ordination			Guidance	notching		
			subordination		subordination				vs.			
									Adjusted			
									BCA			
Counterparty Risk Rating			26.6%	26.6%	26.6%	26.6%	3	3	3	3	0	a1
Counterparty Risk Assessment			26.6%	26.6%	26.6%	26.6%	3	3	3	3	0	a1 (cr)
Deposits			26.6%	3.2%	26.6%	15.3%	2	3	2	2	0	a2
Senior unsecured bank debt			26.6%	3.2%	15.3%	3.2%	2	1	2	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	-	-	-	0	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 14

Category	Moody's Rating
<b>HYPO-BANK BURGENLAND AG</b>	
Outlook	Stable(m)
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Ratings

## Endnotes

- 1 The bank was originally founded in 1928. After GRAWE Group acquired Bank Burgenland in 2006, the banking group GRAWE Bankengruppe was established in 2008, with Bank Burgenland as the leading institute.

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Contacts

Gerson Morgenstern           +49.69.70730.796  
Sr Ratings Associate  
gerson.morgenstern@moodys.com

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