Credit Rating Announcement

15 November 2023

Scope affirms Bank Burgenland's A- issuer rating with Stable Outlook

The ratings continue to reflect Bank Burgenland's well-established regional franchise for residential and commercial real estate financing and corporate and institutional banking.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the issuer rating of A- on Hypo-Bank Burgenland AG (Bank Burgenland). Scope has also affirmed the bank's senior unsecured debt (preferred) rating of A- and the bank's senior unsecured debt (subordinated) rating of BBB+. In addition, Scope has affirmed the short-term debt rating of S-2. All credit ratings have a Stable Outlook.

Rating rationale

Bank Burgenland's issuer rating of A-/Stable reflects its well-established, profitable, regionally focused business model in the Austrian state of Burgenland, the Vienna metropolitan area and Styria, complemented by its good access to real estate markets in its home markets and in the rest of Austria. The issuer rating also reflects the reliable profit contributions that Bank Burgenland's institutional banking divisions have achieved through asset management and custodial services.

Together, Bank Burgenland, its banking subsidiary Schelhammer Capital and its other bank-related service companies form the GRAWE Banking Group, an integral part of GRAWE Group, an Austrian multi-line insurance group. Bank Burgenland and its subsidiaries are integrated in GRAWE Group's risk control processes. The bank is managed according to the arm's length principle. Due to the group's mutual ownership structure, management is strongly focused on internal capital generation and conservative reserve building, which is also reflected in its banking subsidiaries.

Bank Burgenland generates very solid operating results and generally predictable profitability even in a deteriorating economic landscape. In an environment of rising interest rates, the bank's net interest income increased significantly (+44% in the first half of 2023), while fee and commission income also continued to improve. In addition, given inflationary pressures and increasing regulatory requirements, the bank has placed particular emphasis on cost management to limit the upward trend in operating expenses.

Thanks to its conservative underwriting standards and a well-diversified loan portfolio for its small size, Bank Burgenland maintains a very strong asset quality. Its real estate and corporate loan portfolios are well diversified by type and sector and have so far proved relatively resilient to the deteriorating economic environment. This has resulted in sustained lower risk costs combined with relatively high loan loss reserves (above 100%) compared to domestic peers.

Bank Burgenland's regulatory capital base is very solid, especially considering its high asset risk intensity. The CET1 ratio was a very strong 19.1% at year-end 2022, while the regulatory leverage ratio was an excellent 12.8%. Although the good credit growth of recent years has slowed down from the weaker economic environment, capital adequacy has improved significantly thanks to the good level of profit retention. More generally, the rating could come under pressure if loan growth were to lead to a deterioration in the bank’s capital adequacy ratios, although Scope currently considers this to be very unlikely.

Bank Burgenland’s healthy funding profile is supported by sound, continuously growing customer deposits. In addition, the bank frequently issues preferred senior unsecured and covered bonds with a wide range of durations, resulting in a healthy maturity profile. Its liquidity management is also sound, leading to solid regulatory ratios.

Bank Burgenland has a solid commitment to sustainability (ESG factor). This is particularly evident in private banking subsidiary Schelhammer Capital Bank and asset manager Security Kapitalanlage AG. In terms of digital transformation, Bank Burgenland has been making good progress with its successful online banking offering (DADAT Bank) and custodian bank services (Die Plattform). Regarding Bank Burgenland’s loan portfolio, Scope believes the environmental area has considerable potential for further development in the coming years.

One or more key drivers for the credit rating action are considered ESG factors.

Rating-change drivers

What could move the rating up

- Significant increase in market shares outside the home region, leading to greater diversification of revenue streams.

What could move the rating down

- Significant deterioration in the bank's economic environment, i.e. the economy in eastern Austria and particularly the real estate market.
- Any unexpected change in Bank Burgenland's earnings base due to weaker new lending volumes, a sustained loss of commission income streams or increased risk appetite of subsidiaries or the parent company.
- Considerable reduction in capital adequacy metrics resulting from continued, strong loan growth.

Overview of the rating construct

Operating environment: supportive

Business model: consistent

Initial mapping refinement: low

Initial mapping: bbb-/bbb

Long-term sustainability: developing

Adjusted anchor: bbb-

Earnings capacity and risk exposures: very supportive

Financial viability management: comfortable

Additional rating factors: neutral factor

Standalone assessment: a-

External support: not applicable

Issuer rating: A-

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.

Lead analyst: Christian van Beek, Director

Person responsible for approval of the Credit Ratings: Marco Troiano, Managing Director

The Credit Ratings/Outlooks were first released by Scope Ratings on 20 December 2021. The Credit Ratings/Outlooks were last updated on 24 November 2022.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

Contact

Analyst	Christian van Beek	c.beek@scoperatings.com
Team leader	Marco Troiano	m.troiano@scoperatings.com

Scope Ratings GmbH • Lennéstraße 5 • D-10785 Berlin • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scoperatings.com

Executive Board: Guillaume Jolivet • District Court: Berlin: HRB 192993 B • VAT identification number: DE226486027