Credit Rating Announcement

24 November 2022

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

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

Rating rationale

The ratings for Bank Burgenland reflect its well-established, profitable and regionally focused banking operations in the Austrian regions of Burgenland, Vienna and Styria. Despite a traditional focus on real estate financing, Bank Burgenland's business model is very well-diversified thanks to good market positions in retail and private banking as well as in the institutional business areas of asset management and custodian banking. Bank Burgenland along with its subsidiaries is integrated into the risk controls of the GRAWE Group as a fully owned subsidiary of Grazer Wechselseitige Versicherung AG, an Austrian multi-line insurance group. Due to the group's mutual ownership structure, the management of both Bank Burgenland and its subsidiaries is focused on internal capital generation and conservative reserve building.

Bank Burgenland has maintained its solid and generally predictable profitability in recent years. While net interest income will benefit in the long term from the interest rate increases, write-downs on the securities portfolio will weigh on an otherwise good result in 2022. Overall, Scope expects that the mix of revenue streams, which is very diversified for the bank's small size, will continue to contribute to stable performance in the coming years. However, should the profitability deteriorate structurally due to narrowing net interest margins and/or declining commission income, the rating would come under pressure.

The bank's solid asset quality metrics are resilient, even in a deteriorating economic environment. The real estate and corporate loan portfolios, well diversified by type and sector respectively, remained robust during pandemic-related shutdowns. While Bank Burgenland expects a gradual increase in insolvency rates in its home markets from 2023, Scope expects the bank to have a significantly lower cost of risk than the Austrian average in an environment that Scope anticipates will deteriorate significantly in 2023.

Bank Burgenland's regulatory capital base is solid, especially in light of the high asset risk intensity. The leverage ratio was correspondingly very high at 11.6% at the end of 2021. However, the sustained good credit growth has led to constant pressure on capital adequacy, which the bank is balancing by retaining profits and intensifying the optimisation of risk weighted assets.

The sound funding profile is supported in particular by a solid and growing deposit base. In addition, the bank has increased its placement of preferred senior unsecured and covered bonds with a wide range of maturities over the past two years, resulting in a healthy maturity profile. Its liquidity management is also sound, resulting in solid regulatory ratios.

Rating-change drivers

Positive rating-change drivers

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

Negative rating-change drivers

- Structural deterioration in revenue streams as a result of narrowing net interest margins or declining commission income from Bank Burgenland’s successful private banking, asset management or custodian bank services

- Significant deterioration in the bank's economic environment of eastern Austria, particularly in real estate

- Considerable reduction in capital adequacy metrics resulting from continued, strong loan growth

- Any unexpected change in the risk appetite of Bank Burgenland, its subsidiaries or its parent company

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

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

Methodology
The methodologies used for these Credit Ratings and/or Outlooks, (Financial Institutions Rating Methodology, 28 January 2022), are 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 Rating(s): Marco Troiano, Managing Director
The Credit Ratings/Outlooks were first released by Scope Ratings on 20 December 2021.

Potential conflicts
See www.scoperatings.com under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

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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

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