Bank Burgenland
Austrian Hypothekenpfandbriefe – Performance Update

Rating rationale (summary)

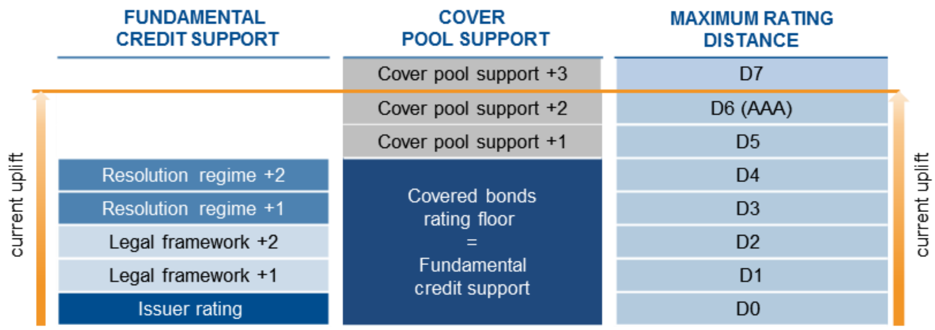
The AAA ratings with a Stable Outlook on the Austrian mortgage-covered bonds (Hypothekenpfandbriefe) issued by Hypo-Bank Burgenland AG (Bank Burgenland) are based on the bank's sound credit quality enhanced by up to seven notches of cover pool support.

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 September 2020	EUR 879.5m	Residential and commercial mortgage loans	EUR 509.9m	AAA/Stable

Bank Burgenland is a well-established, profitable, regionally focused banking franchise in the Austrian state of Burgenland and bordering areas of eastern Austria, with access to real estate markets in the greater Vienna area and Styria as well as a branch network in western Hungary through a subsidiary.

Fundamental credit support factors from the Austrian legal and resolution framework provide a four-notch uplift above the bank's rating. This effectively forms a rating floor at AA. Cover pool support enables the programme to be rated AAA, with two notches of uplift reflecting the credit strength of the covered bond programme.

The strength of the cover pool provides the programme with a buffer against an issuer downgrade of one notch. The maximum theoretical uplift constitutes seven notches, as opposed to the six notches used to achieve the highest rating for these covered bonds.



Stable Outlook

The Stable Outlook on the covered bonds reflects: i) the continuous availability of high overcollateralisation (OC), which provides a one-notch buffer against a downgrade of the bank and against a rise in credit and market risks; ii) our view that European covered bond harmonisation will not negatively impact the fundamental support factors relevant for the issuer and Austrian mortgage-covered bonds in general; and iii) the Stable Outlook on the issuer's credit quality.

Changes since the last performance update

The level of OC that supports the AAA rating has decreased to 17.0% from 22.0%. Bank Burgenland took advantage of the current low interest rate environment to issue low-coupon, callable covered bonds, effectively increasing the programme's excess spread. As a result, available OC has decreased to 72.5%, which is still very high. The volume of outstanding covered bonds increased by almost 50%, while the amount of eligible cover assets remained stable.

Ratings & Outlook

Issuer rating	N/D
Outlook	N/D
Covered bond rating	**AAA**
Outlook	Stable
Rating action	Affirmation
Last rating action date	19.11.19

*N/D – Not disclosed; Scope has assigned a private, monitored issuer rating to the bank. The issuer has solicited the assigned rating and participated in the rating process.

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Related research

Covered Bond Framework Analysis Analytical Considerations: Austria
1 August 2016

Scope completes monitoring review of Bank Burgenland's mortgage-covered bonds
18 November 2020

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Bloomberg: RESP SCOP

The issuer

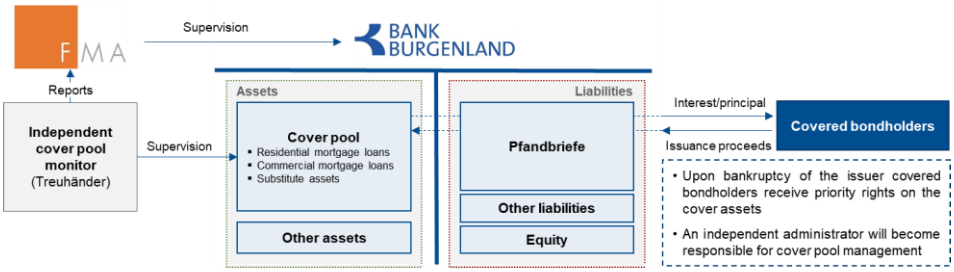
Bank Burgenland is fully owned by Grazer Wechselseitige Versicherung AG (Graz Mutual Insurance Company, or GRAWE). It sits at the apex of the 'GRAWE banking group' and consolidates the group's other financial subsidiaries. The bank does not benefit from a formal guarantee, but all group members are integrated into the GRAWE group's risk control strategy. In accordance with its overall strategy, the group's management is strongly focused on capital preservation and building up intrinsic strength via early provisioning. This focus is reflected in its own prudential metrics as well as in the wider management of other group entities.

For a more detailed credit view on the bank see Appendix I.

Programme structure

Bank Burgenland issues covered bonds using an on-balance sheet structure. As a former Landeshypothekenbank (state mortgage bank), its issuances of mortgage-covered bonds are governed by the Austrian Covered Bond Act (Pfandbriefgesetz) and supervised by Austria's Financial Market Authority (FMA).

Issuance structure



Source: Scope Ratings

Fundamental credit support analysis

The Austrian covered bond framework, combined with our positive view on the resolution regime, provides the covered bonds with a fundamental analysis-based credit differentiation of four notches above our view on the issuer's credit strength.

Two notches of uplift based on legal framework analysis

Our analysis of the Pfandbriefgesetz confirms that the Austrian framework just meets the criteria to assign the maximum credit differentiation under our methodology. The provisions of the framework ensure that: the cover pool is segregated from the issuer's insolvency estate; bond payments continue after insolvency; and identified risks can be mitigated by OC, which generally remains available after insolvency. Austrian covered bonds also benefit from specific regulatory oversight. However, we recognise the framework's lack of clarity on liquidity or risk management for covered bonds. We believe ongoing industry efforts will improve and consolidate the three existing frameworks. These efforts should be reinforced by the upcoming European covered bond directive, which we expect will reduce complexity and improve credit protection for covered bond investors.

Two out of four notches of uplift based on resolution regime

Bank Burgenland's covered bonds benefit from an additional two-notch uplift, which reflects the exemption of covered bonds from bail-in, our view on the resolvability and likely maintenance of Bank Burgenland in the hypothetical scenario of regulatory intervention in the bank, and the moderate importance of covered bonds in Austria. In our opinion, Bank Burgenland is not a systemically important covered bond issuer and Austrian covered bond stakeholders are not sufficiently supportive or cohesive to justify an additional uplift.

For more information on our legal framework and resolution regime analysis, see related research.

Programme characteristics

Cover pool balance (EUR m)	879.5
Residential cover assets	70.9%
Commercial cover assets	27.9%
Substitute collateral	1.2%
WA LTV	49.6%
WA seasoning (months)	60
WA RTM (months)	137

Amortisation type

Annuity	78.8%
Bullet	21.2%

Debtor information

Number of debtors	2,929
Inverse Herfindahl index	127
Top 10 exposures	13.2%
SMEs	17.5%
Residential housing corp.	54.0%
Private individuals	28.5%

Property type information

Residential – private use	48.5%
Residential – commercial use	23.3%
Office	6.1%
Industry	2.4%
Agriculture	1.3%
Retail	1.4%
Other	17.0%

Cover pool analysis

Bank Burgenland's mortgage-covered bond ratings are cover pool-supported, with six out of seven possible notches currently needed to achieve the highest rating. Fundamental credit support provides a four-notch rating uplift and, effectively, a floor against a deterioration in cover pool credit quality.

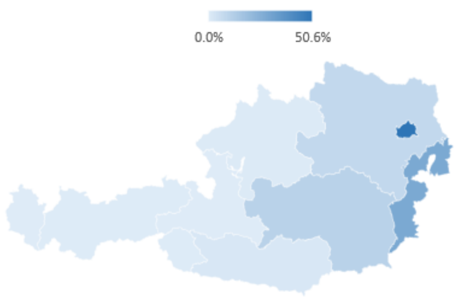
Since our last review in 2019, the minimum supporting OC needed to achieve the highest rating has decreased to 17.0% from 22.0%, reflecting the programme's increased excess spread due to the issuance of low-coupon, callable covered bonds.

Cover pool composition

The cover pool comprises well-seasoned, domestic commercial and residential mortgage loans located in eastern Austria. The low weighted average loan-to-value (LTV) of 49.6% on an eligible-loan basis indicates high protection against credit losses in the event of borrower default. The Austrian Mortgage Bond Act does not stipulate a maximum LTV for cover pool assets. However, Bank Burgenland voluntarily limits its eligible LTV to 60%.

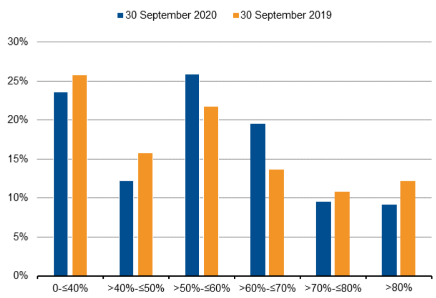
Commercial debtors are SMEs (17.5%) or larger housing corporations (54.0%). Non-recourse or special purpose vehicle structures are rare. By property-usage, 71.8% of the pool is secured by residential properties. Multifamily houses and flats account for most of the portfolio and are largely located in Vienna.

Regional distribution



Source: Scope Ratings, Bank Burgenland

LTV distribution (whole-loan basis)



Source: Scope Ratings, Bank Burgenland

Asset risk analysis

The residential sub-pool is highly granular, allowing us to analyse using an inverse Gaussian distribution. We established a mean default rate of 12.5% and a coefficient of variation of 60%. The parameters for the default distribution were derived using the bank's loan-by-loan risk assessments and benchmarking.

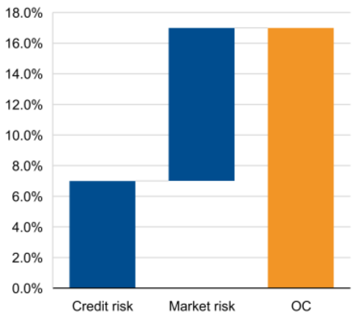
For the commercial sub-pool, our projections of default in the cover pool used a non-parametric default distribution, which can be approximated with a mean default rate of 9.5% and a coefficient of variation of 76.4%. We used a correlation framework together with the bank's loan-by-loan risk assessments to incorporate the impact of geographical, industry and issuer concentrations.

We estimated recovery rates under a base-case scenario (D0) of 96.0% for the residential pool and 95.0% for the commercial pool. In the most stressful scenario (D7), we estimated 87.5% for the residential pool and 60.0% for the commercial pool. Our recovery rate calculations reflect rating-distance-dependent market value declines as well assumptions regarding the Austrian housing market and its unique characteristics. Stressed security value haircuts range between 40.0% and 70.0%, depending on the property's location.

Cash flow risk analysis

The rating-supporting OC of 17.0% mainly reflects the programme's sensitivity to high prepayments in combination with a stressed lower-for-longer interest rate scenario. Combined, these factors result in significant costs of carry for the programme. Market risks account for 10 pp of the supporting OC of 17.0%.

Rating-supporting OC: breakdown



Source: Scope Ratings

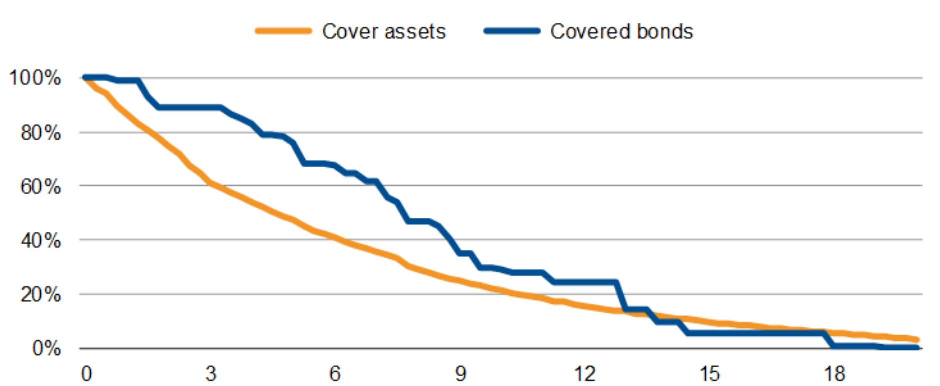
As of Q3 2020, the weighted-average life (WAL) of the outstanding covered bonds is 8.3 years, when accounting for call rights which may be exercised by the issuer. In comparison, the WAL of the scheduled cover pool is 7.3 years. In a high prepayment scenario, the WAL of the assets further reduces to around three years, thereby further increasing the gap between the cover assets and the covered bonds. Typically for Austrian mortgage covered bonds, there is structural interest rate risk. 73.7% of the cover assets pay a variable rate, while all of the covered bonds pay fixed rates.

Asset-liability mismatches

	Assets	Liabilities
EUR	100.0%	100.0%
Fixed	26.3%	100.0%
Floating	73.7%	0.0%
WAL (years)	7.3	8.3

In total, credit risk accounts for 7 pp of the supporting OC. This is moderate, reflecting the programme's mean default rate of 10.5%, a coefficient of variation of 70.6% and a stressed recovery rate of 72.4%. It also reflects the high prepayment scenario that drives the results, reducing the lifetime of the assets and thereby the allocation of defaults.

Amortisation profile (relative)

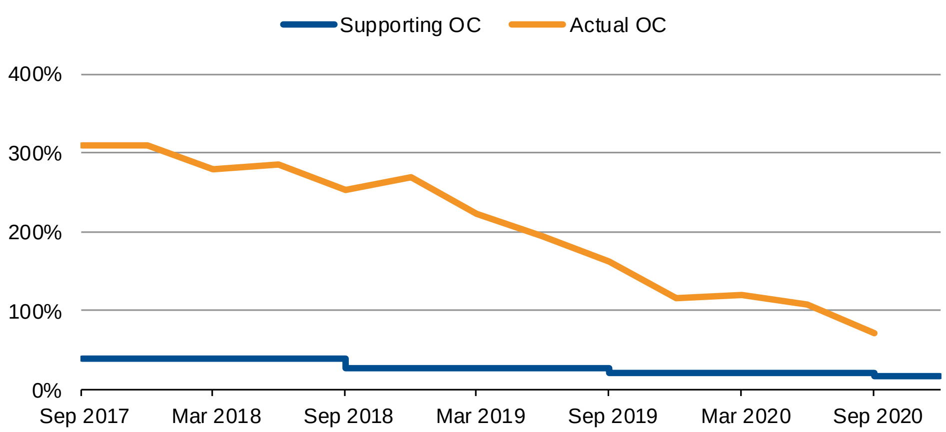


Source: Scope Ratings, Bank Burgenland

Availability of overcollateralisation

The credit strength of Bank Burgenland allows us to fully account for the provided OC of 72.5%. We are not aware of plans that would significantly change the risk profile or reduce available OC to levels that would no longer support the current rating uplift.

OC development



Source: Scope Ratings, Bank Burgenland

Other risk considerations

Main counterparty exposure relates to Bank Burgenland

The rated bonds are exposed to Bank Burgenland's roles as originator, servicer, account provider and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration of, for instance, the counterparties providing bank accounts. However, in such a scenario we believe the strong alignment of interests between the bank and the covered bond holders would prevent negative impacts before a regulator intervenes. As part of its risk management process, the bank regularly monitors its accounts to ensure that any remedial action required is taken at an early stage.

In addition, we expect any regulatory intervention in Bank Burgenland to involve the use of available resolution tools with the aim of maintaining the issuer. We do not expect the active management and servicing of the cover pool to be severely impacted in such a scenario.

Country risk does not affect the ratings

Sovereign risk does not limit the ratings of Bank Burgenland's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are remote.

No impact from ESG

We have not included ESG aspects in our assessment of the mortgage-covered bonds. The issuer has not provided us with additional information, such as ESG underwriting conditions that could result in positive adjustments to a loan's terms and conditions. Furthermore, we were unable to identify any effects on the credit performance of cover pool assets caused by their degree of ESG compliance.

Sensitivity analysis

One-notch buffer against potential change in issuer rating

Bank Burgenland's mortgage-covered bond ratings benefit from a buffer against an issuer downgrade of up to one notch. The level of rating-supporting OC is both a function of the programme's risk profile but also of the issuer rating. The lower the issuer rating, the higher the reliance on cover pool support.

Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a one-notch downgrade would increase the rating-supporting OC to 20.0%.

Constraint through rating-supporting OC unlikely

The current OC of 72.5% greatly exceeds the 17.0% level needed to support the AAA rating. We do not expect rating-supporting OC to constrain the rating in the short to medium term. This assumption reflects the issuer's stable underwriting criteria and the fact that the cover pool's credit quality does not materially differ from the additional, available eligible assets or the bank's loan book.

I. Appendix: Hypo-Bank Burgenland AG – issuer credit view

Highlights

- ✓ Bank Burgenland's ratings reflect a well-established, profitable, regionally focused banking franchise in the Austrian state of Burgenland and bordering areas of eastern Austria, with access to real estate markets in the greater Vienna area and Styria as well as a branch network in western Hungary trough a subsidiary.
- ✓ Bank Burgenland is an integral part of GRAWE, an Austrian multiline insurance company. The bank is managed on an arm's length basis though the bank, and its subsidiaries are also integrated into the GRAWE group's overall risk control processes. Due to the mutual ownership structure, management is strongly focused on internal capital generation and conservative reserve building that is also reflected in the banking subsidiaries.
- ✓ Bank Burgenland comprises several banks and financial service companies within Austria and Hungary. Although the group pursues a multi-brand strategy with the aim to have access to a wider diversified customer base, the entities are managed as part of an integrated business model, allowing various specialised financial services to complement each other as well as providing access points to funding. In this context, the bank launched a nationwide cooperation with the Austrian Post in 2020 (bank99).
- ✓ Bank Burgenland displays adequate asset-quality and showed improved profitability over the past years. We do not expect the addition of a small capital markets operation in Vienna to radically change the risk profile. Profits are mostly retained or up-streamed to the parent company, where they are used to strengthen capital reserves.

Credit drivers (summary)

The credit strength drivers, in decreasing order of importance in the credit analysis, are:

- Regionally focused bank with improving track record of profitability built on a conservative, mutually defined business model.
- Conservative funding and liquidity profile, as well as prudent capitalisation.
- Adequate asset quality metrics.

⇧	Significant increase in market share, profitability and revenue diversification could lead to further upgrade of the issuer rating.
⇩	Any adverse risk exposure or risk-taking on the part of the bank, its majority shareholder or financial subsidiaries could put pressure on the issuer's rating.
⇩	Any decreased commitment by the current shareholder or capital depletion would lead to a downgrade of Bank Burgenland's ratings.
⇳	Any changes in the shareholder structure could affect the issuer's ratings.

Rating drivers (details)

Bank Burgenland ownership and group structure overview

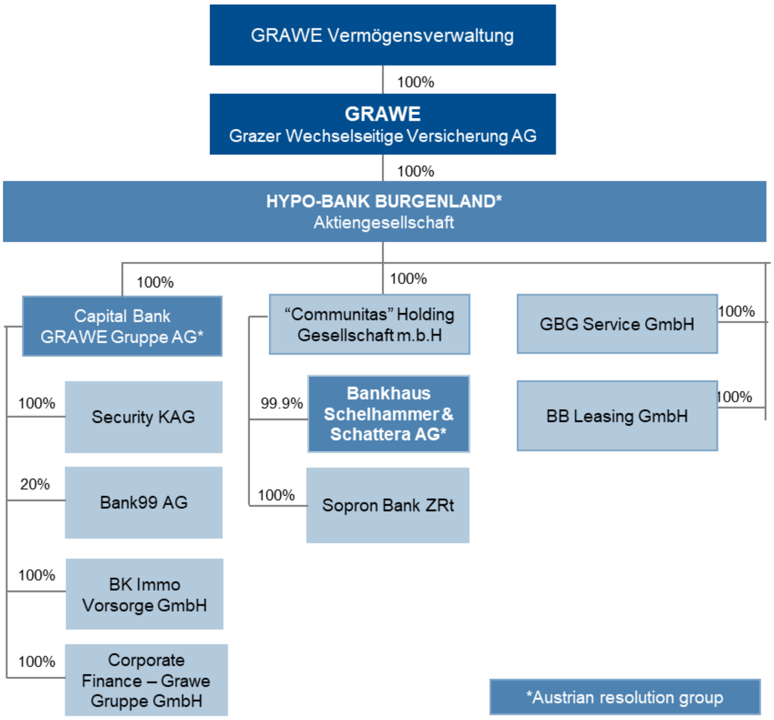
Hypo-Bank Burgenland is a 100% subsidiary of the GRAWE insurance group, an Austrian mutual insurance company. GRAWE reported EUR 979m of net premiums written in 2019 and the net profit was EUR 125m. The company had equity of EUR 1.5bn and an investment portfolio of EUR 10.6bn.

Focused on the eastern Austrian region, Bank Burgenland is the main operating entity of the GRAWE banking group and serves as the holding company for several subsidiaries that are active in private banking, asset management and capital markets.

GRAWE cooperates closely with Bank Burgenland and its subsidiaries on various levels, e.g. on group-internal asset management agreements, commercial real estate business, as well as the utilisation of the bank network as an alternative distribution platform for insurance products.

Given this, combined with the insurance company's strong financial position, we assume that the group has the willingness and ability to financially support its subsidiaries.

Figure 1: Bank Burgenland ownership and group structure overview



Source: Company information

Bank Burgenland, as a banking institution itself, focuses on the retail and small business segment, as well as continuing to benefit from its status as the 'house bank' for the regional state of Burgenland.

Within the GRAWE banking group, Bank Burgenland also provides the expertise for the real estate business, including commercial real estate lending. Other members of the GRAWE banking group mainly provide complementary services that focus on asset management and private banking. Capital Bank and Schelhammer & Schattera, the private banking institutions within the group, count as part of the largest private banks in Austria. Fund manager Security KAG has shown strong growth in fund volumes over the past years (EUR 5.9bn in assets under management).

Since 2020, a co-operation with the Austrian Post, bank99, has added further momentum to Bank Burgenland's Austrian franchise and allowed the group to better utilise its cost base. Burgenland maintains a 20% minority stake in the business and supports bank99 with outsourcing services and product development. As of September 2020, bank99 had a nationwide presence of 400 post office branches and 1,400 independent post office agents, as well as 47,000 customers and deposits of EUR 360m.

The post network allows access to about 200,000 regular post-office customers. The Austrian Post took over 80% of the banking subsidiary as part of the deal and is funding most of the expansion, while Bank Burgenland provides product expertise and systems.

In 2019, Bank Burgenland added a small capital markets business in Vienna that focuses on Austrian and international institutional clients and mid-cap companies. The business broke even in its first year of operation and benefited from the surge in trading activity in 2020. Based on current business plans, we do not expect this to materially change the group's risk profile.

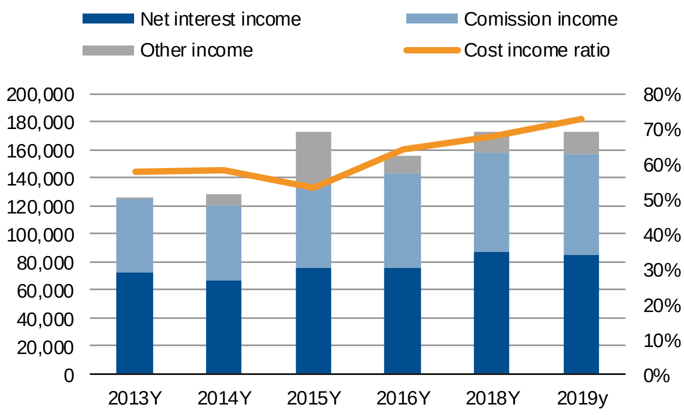
In 2019, GRAWE banking group completed the migration of its various banking subsidiaries onto a new core banking platform without a glitch. While this led to increased IT costs in 2019, the group expects the new platform to lead to cost savings (EUR 2m target) going forward and provide incremental revenue opportunities through third-party banking services.

In addition, Bank Burgenland has a small subsidiary (Sorpron Bank, EUR 230m in assets as of end-2019) across the border in western Hungary.

Stable profitability supports credit profile

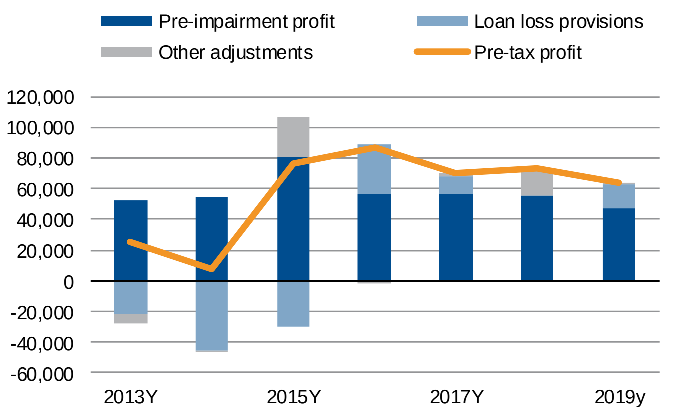
Bank Burgenland's financials have been stable due to intrinsic factors such as a restructured, more integrated business profile with its subsidiaries, as well as an aligned, conservative risk control strategy within the broader GRAWE group. Bank Burgenland benefits from strong profit contributions from its subsidiaries, particularly from Capital Bank. Bank Burgenland's improved profitability over the past years has resulted in higher dividends, which are up-streamed to the parent, though most of the profit continues to be retained at the bank level.

Figure 2: Bank Burgenland operating income



Source: SNL

Figure 3: Bank Burgenland profitability

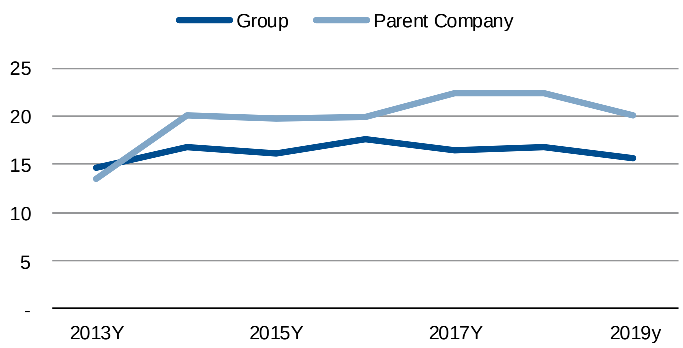


Source: SNL

Conservative funding and liquidity profile, as well as prudent capitalisation

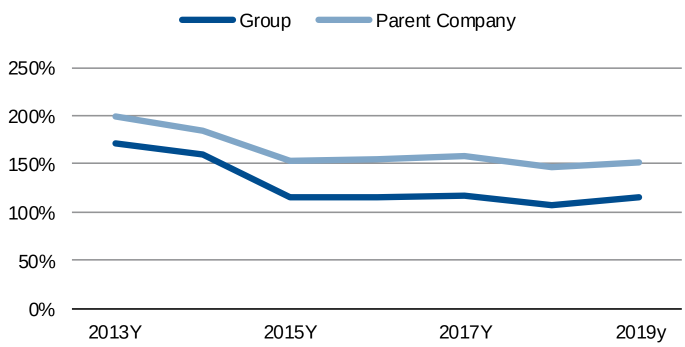
The prudent metrics of Bank Burgenland have demonstrated strong stability over the past years, with owner GRAWE supporting intrinsic capital build-up and conservation at the banking level. The total capital ratio of the Burgenland banking group was 15.7% and the stand-alone ratio for the parent company was 20% at end-2019.

Figure 4: Bank Burgenland CET1 ratios (%)



Source: SNL

Figure 5: Bank Burgenland loan deposit ratios



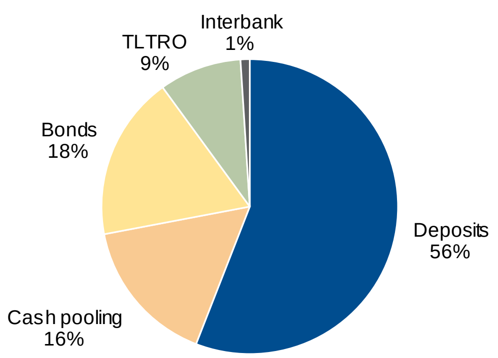
Source: SNL

Although Bank Burgenland does not benefit from an explicit guarantee from its owner, our view is that the integration of the bank within the group, as the leading institution for its financial arm, as well as the strategy of intrinsic capital build-up, reflects a strong strategic commitment on the part of GRAWE.

Bank Burgenland (parent) will be the single point of entry for resolution for the various Austrian subsidiaries. The MREL requirement for the Austrian resolution group was set at 14.9% of TLOF (binding from 2022), compared to the MREL-eligible liabilities of 16.6% as of June 2020. Sopron Bank in Hungary will form its own resolution entity and is mostly self-funded except for a small credit line from the parent.

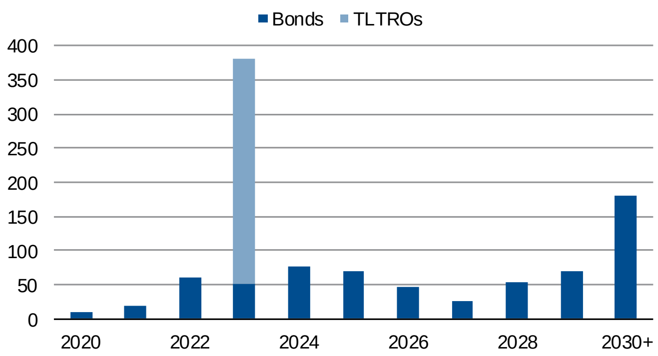
The liquidity coverage ratios of Bank Burgenland were above 160% at both group and parent company levels as of September 2020. This includes the effect of EUR 430m of TLTROs drawn in 2020. The net stable funding ratios of the group and parent bank were 124% and 112%, respectively. The maturity profile of bonds is well spread beyond 2030, mainly through covered bonds (EUR 120m issued in 2020).

Figure 6: Bank Burgenland funding mix (June 2020)



Source: Company information

Figure 7: Bank Burgenland maturity profile (June 2020)



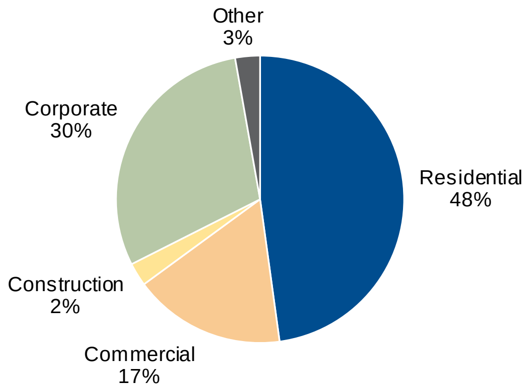
Source: Company information

Asset quality supported by high degree of collateralisation

Our view on Bank Burgenland's credit strengths is supported by its primary focus on mortgage lending in its regional markets in rural eastern Austria and Vienna. The bank has a decent track record of adequate asset quality. Looking at the loans secured by mortgages, 48% of the loan book comes from residential real estate mortgages, 17% from commercial real estate mortgages and the remaining from a diversified source of other mortgages.

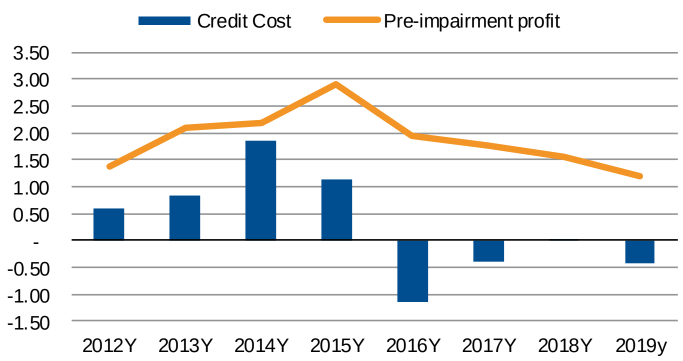
The sharp Covid-19-induced recession in Austria has so far had only limited impact on Bank Burgenland's asset quality, mainly because real estate prices have remained stable thanks to very low interest rates and strong demand for housing. However, commercial real estate is likely to suffer due to the weaker demand for hospitality and retail properties. After an initial spike, 5% of lending was reported as being under moratorium after the summer; however, the high degree of collateralisation means the provisioning requirements have been very low in 2020.

Figure 8: Bank Burgenland secured loans (June 2020)



Source: Company information

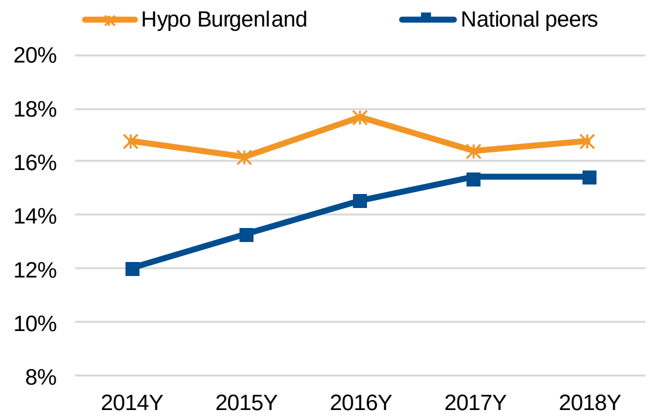
Figure 9: Bank Burgenland credit cost (% loans)



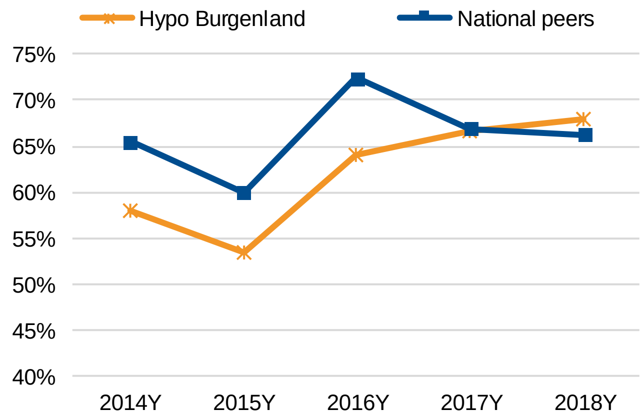
Source: SNL, Scope calculations

II. Appendix: Peer comparison

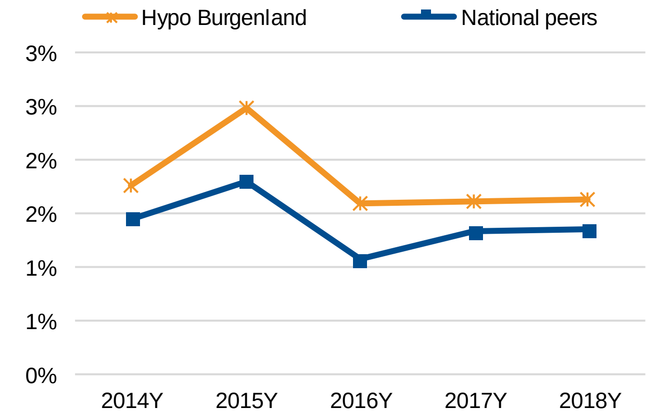
CET1 ratio (%, transitional)



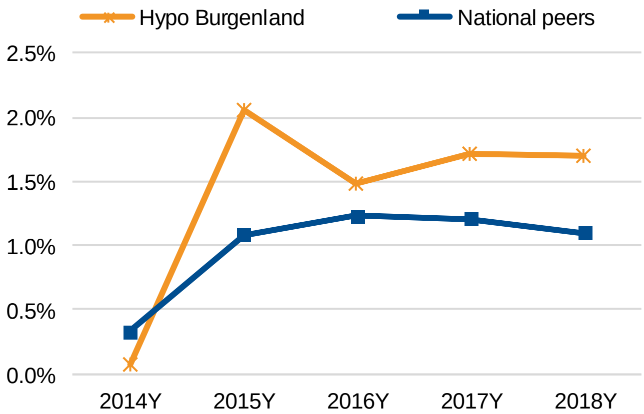
Cost to income ratio (%)



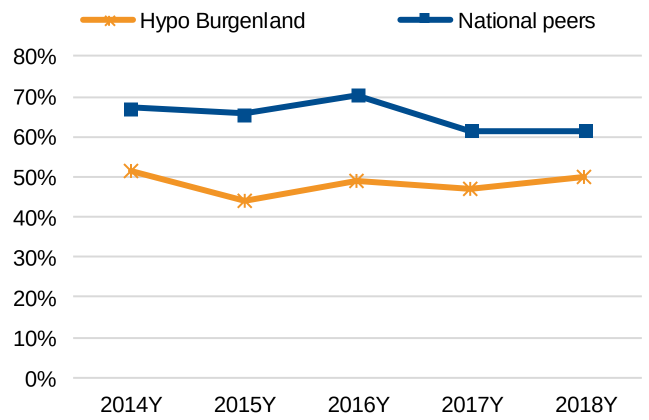
Pre-provision income/risk-weighted assets (%)



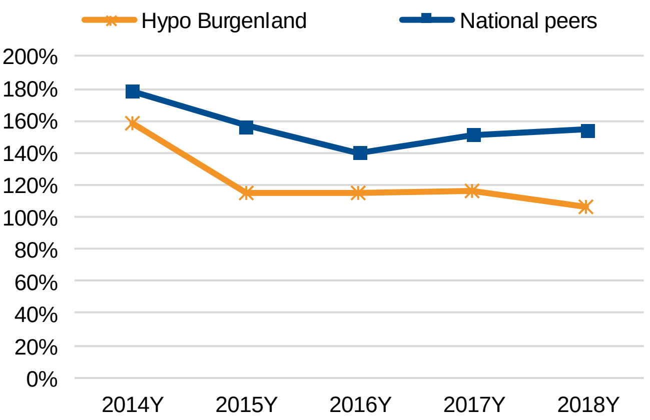
Return on risk-weighted assets (%)



Net interest income % operating income



Loan-to-deposits ratio (%)



*National peers: Salzburger Landes-Hypothekenbank, Hypo NOE, Hypo Oberoesterreich, Hypo Steiermark, Hypo Tirol, Hypo Vorarlberg, Anadi Bank, Hypo Bank Burgenland.
Source: SNL
*Consolidated numbers taken for Hypo Bank Burgenland

III. Appendix: Selected financial information – Bank Burgenland (consolidated)

	2014Y	2015Y	2016Y	2017Y	2018Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	396	578	235	382	756
Total securities	1,225	1,492	1,527	928	803
of which, derivatives	99	80	63	NA	NA
Net loans to customers	2,461	2,768	2,903	3,196	3,597
Other assets	78	126	129	296	266
Total assets	**4,160**	**4,965**	**4,794**	**4,803**	**5,422**
Liabilities					
Interbank liabilities	219	368	352	452	479
Senior debt	1,487	1,165	891	775	732
Derivatives	35	33	36	NA	NA
Deposits from customers	1,547	2,396	2,520	2,744	3,367
Subordinated debt	72	74	72	16	12
Other liabilities	238	264	219	NA	NA
Total liabilities	**3,599**	**4,300**	**4,090**	**4,188**	**4,776**
Ordinary equity	561	636	703	600	646
Equity hybrids	0	0	0	0	0
Minority interests	0	29	1	14	0
Total liabilities and equity	**4,160**	**4,965**	**4,794**	**4,803**	**5,422**
Core tier 1/ common equity tier 1 capital	514	553	637	548	586
Income statement summary (EUR m)					
Net interest income	66	76	76	79	87
Net fee & commission income	54	60	67	72	72
Net trading income	3	29	2	3	2
Other income	5	8	11	15	12
Operating income	**129**	**173**	**156**	**169**	**173**
Operating expenses	75	92	100	113	118
Pre-provision income	**54**	**81**	**56**	**56**	**56**
Credit and other financial impairments	47	34	-30	-12	-17
Other impairments	0	0	0	0	0
Non-recurring items	NA	NA	NA	NA	NA
Pre-tax profit	**7**	**77**	**87**	**70**	**73**
Discontinued operations	0	0	0	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	5	10	35	10	15
Net profit attributable to minority interests	0	0	1	1	0
Net profit attributable to parent	**2**	**67**	**51**	**59**	**58**

Source: SNL, Scope Ratings

	2014Y	2015Y	2016Y	2017Y	2018Y
Funding and liquidity					
Net loans/ deposits (%)	158.0%	114.7%	114.5%	116.5%	106.8%
Liquidity coverage ratio (%)	NA	NA	NA	NA	149.9%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	59.2%	55.7%	60.6%	66.5%	66.3%
Problem loans/ gross customer loans (%)	13.8%	12.0%	5.2%	NA	NA
Loan loss reserves/ problem loans (%)	36.5%	36.9%	50.7%	NA	NA
Net loan growth (%)	-1.6%	12.4%	4.9%	10.1%	12.5%
Problem loans/ tangible equity & reserves (%)	51.6%	43.6%	19.7%	NA	NA
Asset growth (%)	-3.2%	19.3%	-3.4%	0.2%	12.9%
Earnings and profitability					
Net interest margin (%)	1.6%	1.7%	1.6%	1.7%	1.8%
Net interest income/ average RWAs (%)	2.2%	2.3%	2.2%	2.3%	2.5%
Net interest income/ operating income (%)	51.6%	43.9%	48.8%	46.8%	50.2%
Net fees & commissions/ operating income (%)	42.0%	34.6%	43.0%	42.5%	41.3%
Cost/ income ratio (%)	58.0%	53.3%	64.0%	66.7%	67.9%
Operating expenses/ average RWAs (%)	2.4%	2.8%	2.8%	3.2%	3.4%
Pre-impairment operating profit/ average RWAs (%)	1.8%	2.5%	1.6%	1.6%	1.6%
Impairment on financial assets / pre-impairment income (%)	86.6%	42.8%	-54.1%	-21.8%	-30.6%
Loan loss provision/ average gross loans (%)	1.8%	1.1%	-1.1%	NA	NA
Pre-tax profit/ average RWAs (%)	0.2%	2.4%	2.5%	2.0%	2.1%
Return on average assets (%)	0.0%	1.5%	1.1%	1.2%	1.1%
Return on average RWAs (%)	0.1%	2.1%	1.5%	1.7%	1.7%
Return on average equity (%)	0.4%	10.9%	7.6%	9.1%	9.2%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	16.8%	16.2%	17.6%	16.4%	16.8%
Tier 1 capital ratio (%, transitional)	16.8%	16.2%	17.6%	16.4%	16.8%
Total capital ratio (%, transitional)	17.9%	17.0%	18.1%	17.1%	17.5%
Leverage ratio (%)	NA	NA	NA	NA	9.4%
Asset risk intensity (RWAs/ total assets, %)	73.6%	68.8%	75.3%	69.7%	64.3%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings

IV. Appendix: Summary of covered bond characteristics

Reporting date	30 September 2019	30 September 2020
Issuer name	Bank Burgenland	
Country	Austria	
Covered bond name	Hypothekenpfandbrief (Hypf) Austrian mortgage-covered bonds issued under the PfandG	
Covered bond legal framework	Austrian legal covered bond framework	
Cover pool type	Residential and commercial mortgages	
Composition	Residential = 68.1% Commercial = 31.0% Substitute assets = 0.9%	Residential = 70.9% Commercial = 27.8% Substitute assets = 1.2%
Issuer rating	Not disclosed	Not disclosed
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet
Cover pool currencies	EUR (100%)	EUR (100%)
Covered bond currencies	EUR (100%)	EUR (100%)
Fundamental cover pool support	4	4
Maximum achievable covered bond uplift	7	7
Potential covered bond rating buffer	1	1
Cover pool / eligible assets (EUR m)	1,007.6 / 891.0	998.8 / 879.5
thereof, substitute assets and deposits (EUR m)	7.6	10.9
Covered bonds (EUR m)	338.7	509.9
Overcollateralisation: current / legal minimum	163.1% / 2.0%	72.5% / 2.0%
Overcollateralisation to support current rating	22.0%	17.0%
Overcollateralisation upon a one-notch issuer downgrade	26.0%	20.0%
Weighted average life of assets	7.0	7.3
Weighted average life of liabilities*	9.6	8.3
Number of loans	3,844	3,788
Average loan size (EUR)	229,814	229,313
Weighted average (eligible) LTV	48.9%	49.6%
Top 10 exposures	12.8%	13.2%
Interest rate type – assets	Fixed: 24.6% / Floating: 75.4%	Fixed: 26.3% / Floating: 73.7%
Interest rate type – liabilities	Fixed: 100.0% / Floating: 0.0%	Fixed: 100.0% / Floating: 0.0%
Geographic split (top 3)	Vienna (49.7%) Burgenland (29.3%) Styria (9.6%)	Vienna (50.6%) Burgenland (28.4%) Styria (10.6%)
Default measure	Inv. Gaussian/Non-Parametric	Inv. Gaussian/Non-Parametric
Default rate	10.1%	10.5%
Coefficient of variation	68.0%	70.6%
Recovery rate (D0/D7)**	95.9% / 73.7%	95.1% / 72.4%
Max liquidity premium (residential / commercial)	200bps / 400bps	200bps / 400bps
Servicing fee (residential / commercial)	25bps / 50bps	25bps / 50bps
Interest rate stresses (max./min.; currency-dependent)	-1% to 10%	-1% to 10%

*Assuming first call option is exercised

**D0 or D7 denote the stresses commensurate with the rating distance between the issuer rating and the covered bond rating.

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