Issuer rating

A-

Outlook

Stable

HYPO-BANK BURGENLAND

Issuer Rating Report

Summary and Outlook

Scope's credit view (summary)

- HYPO-BANK BURGENLAND's (Bank Burgenland) **A- issuer rating** reflects its well-established, profitable, regionally focused business model in the Austrian state of Burgenland and in the two metropolitan areas of Vienna and Graz, 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. This results in a diversified income structure even in a deteriorating economic environment, with interest income growing due to a favourable interest rate environment. The acquisition of the Carinthian retail business of the Austrian Anadi Bank (Anadi Bank), announced in December 2023, will further strengthen the highly profitable regional profile.
- Thanks to conservative underwriting standards and a well-diversified loan portfolio, Bank Burgenland maintains a solid asset quality. Its real estate and corporate loan portfolios have so far proved relatively resilient to the deteriorating economic environment.
- Bank Burgenland's regulatory capital base is very solid, especially considering its high asset risk intensity. Capital adequacy has improved significantly recently thanks to the continuously good level of profit retention and slower loan growth and we expect it to remain at a high level even after the acquisition of Anadi Bank's assets.

Outlook

The Outlook is Stable, reflecting our view that although the execution risks associated with the acquisition of part of Anadi Bank's business in the second half of 2024 are significant, Bank Burgenland's strong profitability provides a substantial buffer against integration costs.

What could move the rating up

- Significant increase in market share at national level, leading to greater diversification of revenue streams without material change in risk profile.

What could move the rating down

- Any unexpected change in Bank Burgenland's profitability as a result of the execution risks associated with the acquisition of Anadi Bank's business activities. In general, a weakened earnings base or increased risk appetite of subsidiaries or the parent company could lead to a downgrade.
- Significant deterioration in the bank's economic environment, i.e. the economy in eastern and southern Austria and particularly the real estate market.
- Considerable reduction in capital adequacy metrics resulting from continued, strong loan growth

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Related research

Bank Burgenlands' covered bonds not impacted by acquisition of Anadi banks' assets and liabilities LINK, January 2024

Scope affirms Bank Burgenland's A- issuer rating with Stable Outlook LINK, January 2024

Scope revises Austria's Outlook to Negative from Stable, affirms ratings at AAA LINK, July 2023

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<tr><td rowspan="20">STEP 1</td><td rowspan="5">Operating environment</td><td>Very supportive</td><td rowspan="5">Predominant operations in the supportive environment of the Burgenland region, the metropolitan areas of Vienna and Graz.
Real estate financing is also operated in the rest of Austria.</td></tr>
<tr><td>Supportive</td></tr>
<tr><td>Moderately supportive</td></tr>
<tr><td>Constraining</td></tr>
<tr><td>Very constraining</td></tr>
<tr><td rowspan="5">Business model</td><td>Very resilient</td><td rowspan="5">Well-established, regionally focused banking franchise in retail and commercial banking.
Sound level of diversification through private banking, asset management and an institutional banking operations with long-standing customer relationships.</td></tr>
<tr><td>Resilient</td></tr>
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<tr><td>Low</td></tr>
<tr><td>Initial mapping</td><td>bbb-/bbb</td><td></td></tr>
<tr><td rowspan="5">Long-term sustainability</td><td>Best in class</td><td rowspan="5">Good commitment to sustainability, esp. through its asset management arm Security Kapitalanlage AG.
Loan portfolio with considerable potential for further development in the environmental area.
Successful online banking offering (DADAT Bank) and custodian bank services (‘Die Plattform’).</td></tr>
<tr><td>Advanced</td></tr>
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<tr><td rowspan="17">STEP 2</td><td rowspan="5">Earnings capacity & risk exposures</td><td>Very supportive</td><td rowspan="5">Solid operating results and generally predictable profitability thanks to conservative underwriting standards and a quite diversified mix of banking businesses.</td></tr>
<tr><td>Supportive</td></tr>
<tr><td>Neutral</td></tr>
<tr><td>Constraining</td></tr>
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<tr><td rowspan="6">Financial viability management</td><td>Ample</td><td rowspan="6">Strong capital base.
Sound funding profile supported by a solid and growing customer deposit base and good access to institutional investors offering preferred senior unsecured and covered bonds with a wide range of durations.
Good liquidity management.</td></tr>
<tr><td>Comfortable</td></tr>
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<tr><td>Stretched</td></tr>
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Issuer profile

HYPO-BANK BURGENLAND AG (Bank Burgenland) operates as a regional universal bank for private and corporate customers in the Austrian federal state of Burgenland and in the two metropolitan areas of Vienna and Graz. The bank is also active as a bank for the public sector in Burgenland and provides real estate financing, focusing on its home region but also operating throughout Austria.

The bank is a wholly-owned subsidiary of the independent Grazer Wechselseitige Versicherung AG (GRAWE). GRAWE is the fifth largest Austrian mutual insurance group and operates with 13 insurance subsidiaries in central, eastern and south-eastern Europe. The group also has a strong presence in the property and banking sectors.

In 2022, the GRAWE Group recorded net premiums written of EUR 1.2bn and a net profit of EUR 70m. The group had equity of EUR 1.8bn and investments of EUR 12.8bn (including assets from banking activities). 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 has assumed the function of an umbrella institution and consolidates the other financial services entities of GRAWE banking group, which are active in private banking, asset management and capital markets. With 13 branches in Burgenland, Vienna, Graz and its EU branch in Hungary, Bank Burgenland serves approximately 48,000 customers in its home regions.

Recent events

- December 2023: Bank Burgenland announced the acquisition of the retail business and a selected loan portfolio of Anadi Bank in Carinthia. As part of the transaction, the bank will assume all 10 branches with approximately 70 employees and a corresponding clientele of approximately 43,000 customers. In addition, the bank will acquire a selected SME and real estate financing portfolio totalling approximately EUR 102m with a focus on Carinthia, as well as the specialised team in Carinthia. The transaction is expected to be closed in September 2024.
- July 2023: Bank Burgenland launched its new Neo-Broker 'Traders Place' in Germany as part of its digitisation strategy. The technical basis for this broker is identical to DADAT Bank with adaptations for the German market. The total investment volume of EUR 30m was budgeted.
- H1 2023: Bank Burgenland initiated a cost management project with Deloitte to implement a set of KPIs for staff and service areas.

Rating drivers

Sound regional franchise in a fragmented banking environment combined with highly recurring revenue streams based on a good track record in all key activities

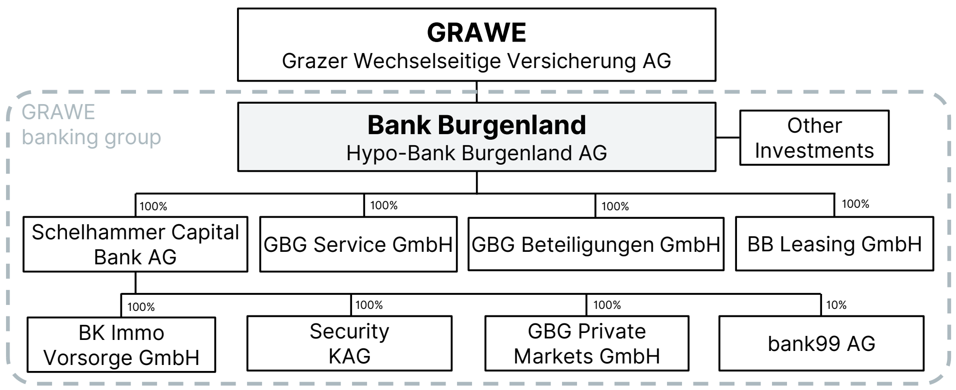
The 'consistent' business model assessment reflects Bank Burgenland's well-established position as a regional universal bank with a round business model. The acquisition of the Carinthian retail business of the Austrian Anadi Bank (Anadi Bank), announced in December 2023, will further strengthen the highly profitable regional profile.

The 'supportive' assessment of operating environment reflects Bank Burgenland's predominantly focused activities in the advanced economy of Austria.

Ownership and group structure

Since its acquisition in May 2006 Bank Burgenland is a member of the Austrian mutual insurance group (GRAWE) and the lead institute in the GRAWE banking group comprising Bank Burgenland, Schelhammer Capital Bank AG and Security Kapitalanlage AG (Security KAG, Figure 1).

Figure 1: GRAWE banking group structure



Source: Company data, Scope Ratings

GRAWE, ranked as the seventh largest insurance company in Austria based on local gross written premiums, extends its operations across the Central and Eastern European (CEE) region through its network of 13 subsidiaries. These subsidiaries operate in countries including Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Hungary, Ukraine, Bulgaria, Romania, Moldova, and Cyprus. Beyond insurance, GRAWE is actively engaged in commercial real estate management, banking via GRAWE banking group, and various investment and holding ventures.

Multi-brand strategy

Collaborating closely with Bank Burgenland and its subsidiaries, GRAWE fosters synergies on multiple fronts, including intra-group asset management agreements, commercial real estate business, and leveraging the bank's network for distributing insurance products. Upholding the arm's length principle, Bank Burgenland and its subsidiaries are managed by GRAWE with full integration into the group's risk control mechanisms. Despite this integration and the establishment of shared support areas, the GRAWE banking group upholds a multi-brand strategy.

Under this strategy, Schelhammer Capital Bank serves as a private banking entity specializing in asset management for high net-worth individuals, families, foundations, as well as corporate and institutional clients. The bank also offers innovative online banking services under the DADAT Bank brand and provides custody and account management solutions for clients of independent financial service providers under the 'Die Plattform' brand.

Security KAG, a subsidiary of Schelhammer Capital Bank, functions as the investment arm of the group, managing numerous investment funds for both private and institutional investors primarily in Austria, with an expanding presence in Germany (assets under management: EUR 6.4 billion as of end-April 2023). Moreover, GRAWE banking group collaborates closely with bank99, the digital bank under Austrian Post, offering outsourcing services. While GRAWE banking group holds a 10% stake in bank99, it is not consolidated in the financial statements of Bank Burgenland.

Long-term business strategy

Aligned with GRAWE's sustainable business strategy and bolstered by its deep regional connections, the GRAWE banking group adopts a long-term perspective in its operations. The recent acquisition of Anadi Bank's operations in Carinthia serves as a strategic move to catalyse further regional expansion, underscoring the group's commitment to sustained growth and stability.

Box A: Operating environment for financial institutions: focus on Austria

Economic assessment – Austria:

- Austria is a prosperous, democratic country located in Central Europe with a well-developed market economy, skilled labour force and high standard of living.
- Austria holds a robust net international investment position with low private sector debt and a favourable external liability structure, providing a resilient external debt position.
- An ageing society, a complex federal fiscal structure and labour-unfriendly taxation pose medium-to-long term challenges to Austria's growth rate.
- Austria's energy mix is heavily dependent on Russian gas, increasing the economy's sensitivity to potential shortages. The war in Ukraine has led to severe restrictions on oil and gas supplies. Near-term risks are mitigated by high levels of gas storage, as well as reduced gas consumption by households and firms.
- We expect growth to remain subdued over the medium term, in a context of persistent inflation, heightened uncertainty and tightening funding conditions.

Key economic indicators	2020	2021	2022	2023E	2024F	2025F
GDP per capita (USD'000s)	48,661	53,711	52,603	NF	NF	NF
Real GDP, % change	-6.7	4.4	4.9	-0.7	0.8	0.8
Unemployment rate, %	6.1	6.2	4.8	5.1	5.5	5.6
CPI, % change	1.4	2.8	8.6	NF	NF	0.0
Policy rate, %	-0.50	-0.50	2.00	4.00	3.25	2.25
General government debt, % of GDP	83	83	78	76	76	75

F: Scope macroeconomic forecast. NF: 'not forecasted'. Source: IMF, WB, Scope Ratings

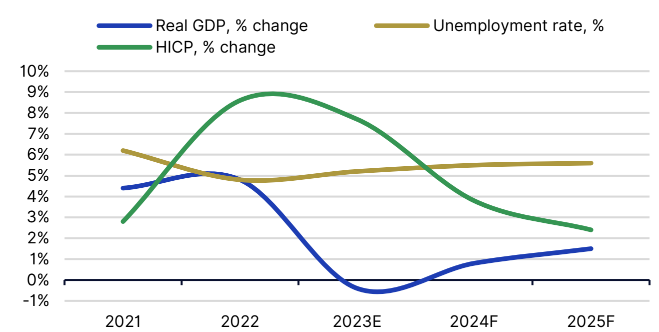
Soundness of the banking sector – Austria:

- The Austrian banking system is highly fragmented and overbanked. The sector is divided into savings banks, cooperative banks, private banks, regional mortgage banks and special banks.
- The largest financial institutions have extensive operations in the CEE region, with subsidiaries in the region contributing about half of Austrian banking-sector profits in 2022 (40% of which were generated in Russia). This exposes banks to fallout from the war in Ukraine.
- Capitalisation and asset quality remain on a steady improving trend, and profitability rebounded strongly, benefitting from recent interest rates hikes.
- Austria is part of the European Banking Union. Significantly important banks are directly supervised by the ECB within the Single Supervisory Mechanism.
- Residential real estate prices slightly declined since Q4 2022 due to regulatory restrictions for lending as well as increasing interest rates.

Banking system indicators	2018	2019	2020	2021	2022
ROAA, %	0.8	0.7	0.3	0.7	1.0
ROAE, %	8.7	8.0	3.9	8.1	11.1
Net interest margin, %	1.8	1.8	1.5	1.5	1.9
CET1 ratio, %	13.8	14.1	15.2	15.7	16.3
Problem loans/gross customer loans, %	3.4	2.8	2.5	3.1	3.1
Loan-to-deposit ratio, %	96.1	96.3	99.0	71.3	72.4

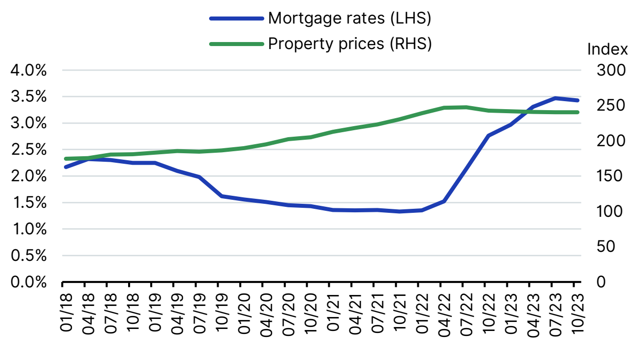
Source: SNL, Scope Ratings

Figure A: Key economic indicators forecast



Scope macroeconomic forecast. Source: Scope Ratings

Figure B: Interest rates on mortgage loans



Lending to households for house purchase, with initial rate fixation over 10 years. Source: National Bank of Austria, BIS, Macrobond, Scope Ratings

Developing environmental and social initiatives, partly advanced digital proposition

Clear commitment to sustainability

The developing long-term sustainability assessment reflects our view that Bank Burgenland has clearly committed itself to sustainability. This is particularly evident in the private banking subsidiary Schelhammer Capital Bank and the asset management company Security KAG. Bank Burgenland is making good progress in the area of digital transformation with its successful online banking offering (DADAT Bank) and custodian bank services (Die Plattform). With regard to Bank Burgenland's loan portfolio, Scope sees considerable development potential in the environmental sector over the next few years.

Figure 2: Long-term sustainability overview table[1]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇			◇				◇	
S Factor	◇				◇				◇	
G Factor			◇		◇				◇	
D Factor			◇			◇			◇	

Source: Scope Ratings

Digitalisation: Stable and long-term revenue streams from digital offerings

Digital transition

Since 2017, the GRAWE Banking Group has been at the forefront of online banking, spearheaded by its innovative brand, DADAT, operated under Schelhammer Capital Bank. DADAT positions itself as a modern direct bank, offering a diverse array of banking, loan, savings, and trading products and services, all accessible exclusively online. In a bold move to expand its reach, the company ventured into the German market in 2023 with the launch of Traders Place, a new online broker. Utilising the same robust technological foundation as DADAT but tailored to meet the needs of the German market, Traders Place exemplifies the group's commitment to innovation and adaptation.

DADAT serves as a trailblazer within the banking group, with some of its pioneering solutions gradually being integrated into other group banks. For instance, advancements made in online consumer credit services are being gradually rolled out across the group. Moreover, the banking group offers a B2B fund platform branded as 'The Platform', catering to investment companies and custody service providers. This platform not only facilitates seamless collaboration but also serves as an outsourcing partner for financial institutions seeking enhanced digitisation and automation of custody services.

In line with its commitment to operational efficiency, the GRAWE banking group is increasingly standardising cross-bank processes and harnessing the power of automation through process engines. Embracing the concept of "robotics" since 2020, the group aims to expedite recurring tasks and minimize errors by further leveraging digitalisation tools. This strategic focus on digital transformation underscores the group's dedication to staying at the forefront of banking innovation while delivering enhanced services to its clientele.

Environment: Proven track record of pioneering sustainable banking

Environmental factor

Schelhammer Capital also considers itself as a pioneer in ethically sustainable banking, playing a pivotal role in advancing the sustainable development agenda within the GRAWE banking group. Established with a clear mission to champion ethically sustainable financial products in Austria, the

[1] The ESG-D heatmap is not a scorecard but illustrates how each factor informs our overall assessment. The Materiality table shows how we assess the credit relevance of each factor for the entire European banking industry. The Exposure table shows to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. The Management table shows how we view the bank's navigation through transitions.

brand has been at the forefront of this movement since its inception. Notably, since 2008, the subgroup has been instrumental in offering ethically and sustainably oriented investment funds under the SUPERIOR brand.

Central to its approach is the establishment of an independent Ethics Advisory Board, tasked with applying strict selection criteria. This ensures that investments are directed only towards socially and environmentally responsible companies and countries, aligning with principles of sustainability and ethics. Security KAG, within the group, boasts extensive expertise in ESG investments, setting industry standards through initiatives such as the launch of the first sustainable high-yield fund and the company-wide implementation of minimum standards.

Pioneering efforts extend to Security KAG's introduction of the first sustainable emerging market bond fund, further solidifying its position as one of the leading providers of sustainable investment funds in Austria.

Governance: Adequate and well established governance structure

Governance factor

The governance structure is well established, ensuring no heightened exposure stemming from either the shareholder structure or the organisation of the GRAWE banking group. Remuneration policies are standardised at the GRAWE group level, emphasizing sustainable and value-driven management while mitigating excessive risk-taking. Variable remuneration elements are structured to align with both annual target attainment and the enduring success of the organization.

There are no significant legal disputes anticipated that extend beyond typical banking operations, underscoring the stability and predictability of the institution's legal landscape.

Social: Advocating Social Responsibility and Human Rights Compliance

Social factor

The social exposure remains neutral, primarily influenced by the regional business profile. As a component of the GRAWE group, the GRAWE banking group actively supports various social initiatives through its fund management arm, Security KAG. Emphasizing support for projects in Styria and initiatives in South Eastern Europe, the group has instituted a dedicated committee tasked with allocating available funds, prioritizing initiatives with a tangible social impact.

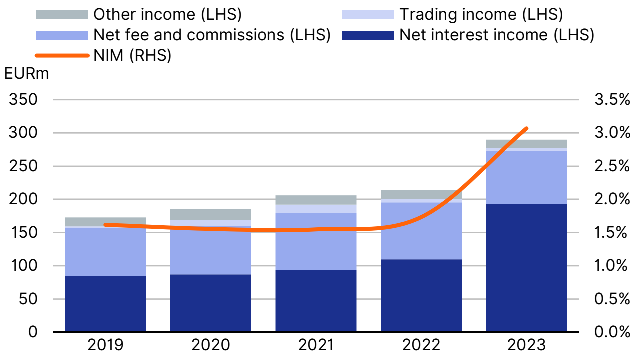
Committed to upholding human rights, the banking group sets stringent expectations for itself and its business partners, including adherence to all relevant laws and regulations. This entails refraining from utilising child or forced labour, ensuring compliance with labour standards, prioritising occupational health and safety, and providing fair compensation to employees.

Earnings capacity and risk exposures

The 'very supportive' assessment of earnings capacity and risk exposure reflects Bank Burgenland's solid operating performance and predictable profitability in recent years, based on a conservative approach and a rather diversified business mix. Bank Burgenland's good earnings capacity supports the accumulation of loss absorption buffers. The real estate and corporate loan portfolios are well diversified by type and industry and have been resilient to the deteriorating economic environment so far.

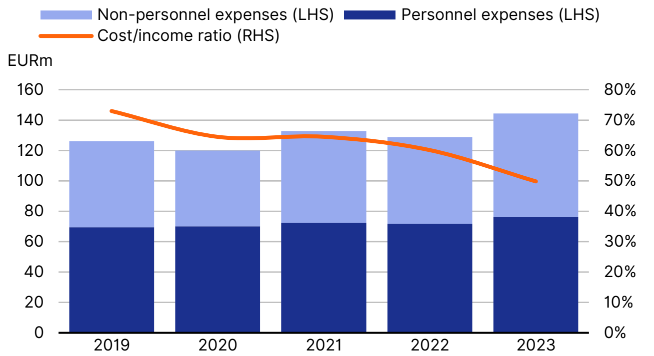
Figure 3: Financial Performance

3.1 Breakdown of revenues



Source: SNL, Bank Burgenland, Scope Ratings

3.2 Cost/income ratio



Source: SNL, Bank Burgenland, Scope Ratings

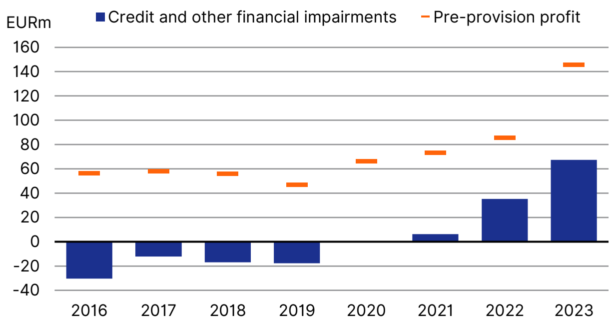
Strong performance supported by diversified business mix and good margins

Bank Burgenland's robust net interest income is anchored in its strong regional foothold and its commercial real estate financing activities. The bank's emphasis on long-term lending operations ensures a predictable influx of revenue streams with low cost of risk. Furthermore, the interest rate hikes since 2022 has bolstered the bank's net interest margin, expanding its revenue base.

Based on the group's well established banking services, fee and commission income has seen substantial growth, driven by strategic initiatives such as private banking operations, online banking, and platform business, which extends settlement services to smaller banks in Austria. Meanwhile, trading income has moderated, returning to more normal levels post-pandemic market recoveries following a peak in 2021.

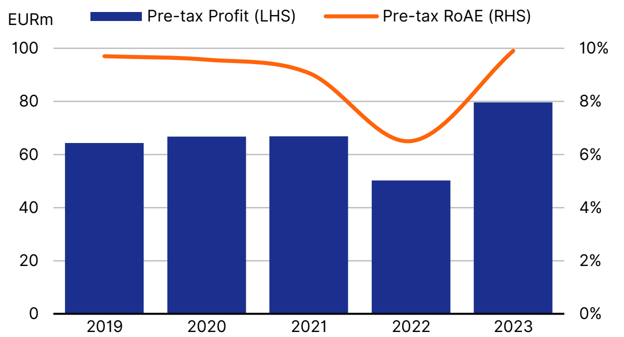
Despite navigating a high inflationary environment and heightened regulatory demands, Bank Burgenland has successfully optimised its cost structure to more sustainable levels, aligning with recent trends. With revenue growth outpacing cost increases and benefiting from reorganisation efforts, the bank has achieved a commendable cost/income ratio of 49.7% in H1 2023, down from 60.1% in FY 2022."

Figure 4: Cost of risk and pre-impairment operating income



Source: SNL, Bank Burgenland, Scope Ratings

Figure 5: Pre-tax profitability



Source: SNL, Bank Burgenland, Scope Ratings

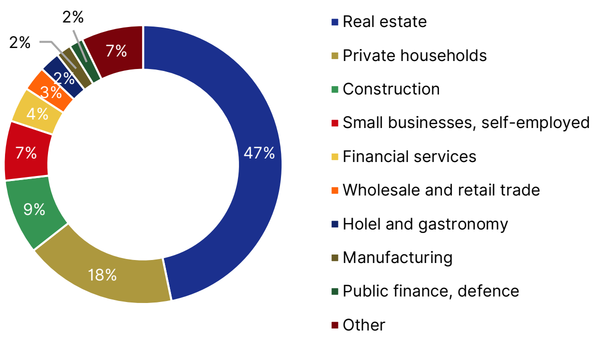
In 2022, in response to economic uncertainties, Bank Burgenland significantly bolstered risk provisions by adjusting risk parameters, effectively mitigating credit risk. Despite this adjustment, the overall cost of risk remained low in H1 2023, evidenced by releases amounting to EUR 9.7m.

The pre-tax result rebounded in H1 2023 following a decline in 2022, attributed to a EUR 23m write down on investments and the deconsolidation of the Hungarian subsidiary Sopron Bank early in the year. Excluding this exceptional write down, the pre-tax return on average equity (RoAE) would have been approximately 10%, consistent with the bank's strong historical performance.

Looking ahead, despite ongoing challenges within the Austrian economic landscape in 2023, we anticipate a solid FY 2023 result for Bank Burgenland, driven by favourable net interest margins. However, this may be partially offset by higher personnel costs and a manageable increase in the cost of risk. Furthermore, we expect the bank's bottom-line earnings to remain stable throughout 2024.

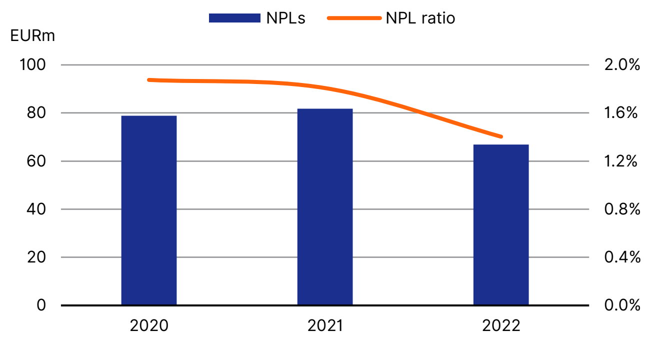
Figure 6: Asset quality

6.1 Breakdown of customer loan book



Total amount as of June 2023: EUR 5.2bn.
Source: Bank Burgenland, Scope Ratings

6.2 Loan quality



NPL: nonperforming loans. Source: Bank Burgenland, Scope Ratings

Sound asset quality

The loan portfolio of Bank Burgenland is characterised by healthy diversification across customer types and industries, with real estate constituting the largest segment at 47% of the total loan book. As of October 2023, the mortgage cover pool amounted to EUR 1.3bn, primarily comprising EUR-denominated domestic commercial (70.8%) and residential (29.2%) mortgage loans in eastern Austria. Maintaining prudential measures, Bank Burgenland voluntarily adheres to a conservative Loan-to-Value (LTV) ratio, limiting it to 60%, well below the maximum stipulated by the Austrian Covered Bond Act of 80%. With an average whole-loan LTV ratio of 55%, Bank Burgenland ensures a robust cushion against credit losses.

The bank maintains stringent underwriting standards, reflected in its low Non-Performing Loan (NPL) ratio, which compares favourably to the Austrian average and aligns with industry peers. The reported NPL ratio decreased to 1.4% in 2022, following the divestment of the Hungarian subsidiary Sopron Bank.

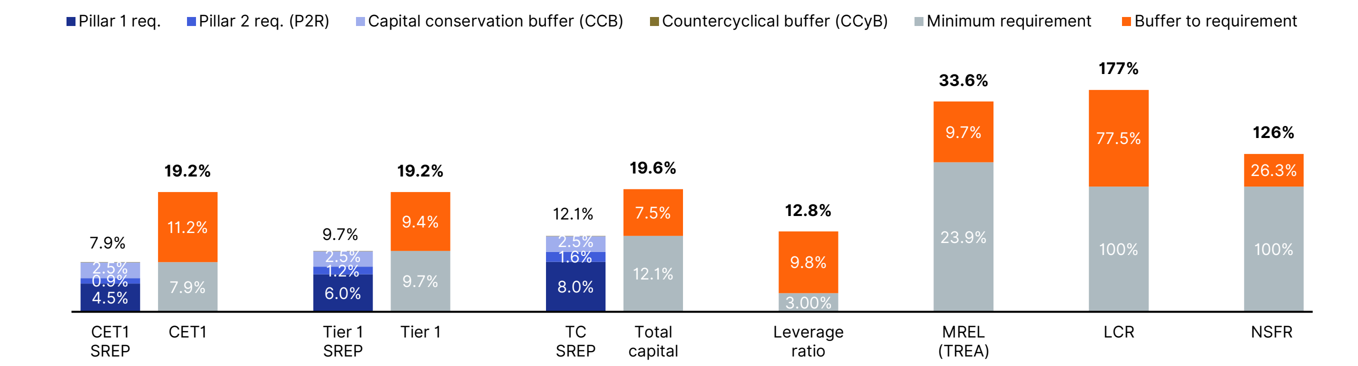
Amidst challenges such as increasing construction and energy costs, interest rate hikes, and a tightening regulatory landscape, the outlook for property and real estate demand in 2024 appears stagnant or declining. This may intensify competition in the Austrian mortgage market, driven by the slowdown in real estate activity.

Anticipating a slight deterioration in asset quality for Bank Burgenland in 2024 amid an uncertain economic climate dampening consumer and business confidence, NPLs are expected to remain manageable. The bank's resilient earnings capacity serves as a buffer against potential asset quality deterioration, positioning Bank Burgenland to navigate these challenges effectively.

Financial viability management

The 'comfortable' assessment of financial viability management reflects our view of Bank Burgenland's strong capital base, which remains well above the relevant peer group average even with a high asset risk intensity. The group also benefits from a highly diversified funding profile, despite its limited size.

Figure 7: Overview of distance to requirements



Data as of YE2022. Source: Bank Burgenland, Scope Ratings

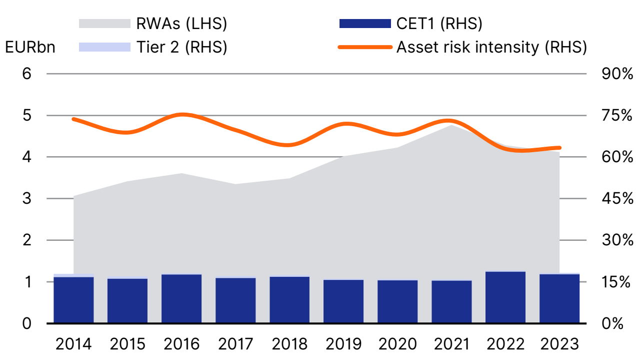
Strong capital generation capacity

Bank Burgenland has maintained a sound regulatory capital position in recent years, boasting a transitional Common Equity Tier 1 (CET1) ratio consistently ranging between 15% to 19%. Notably, this ratio strengthened to 19.1% in 2022, driven by a decline in Risk-Weighted Assets (RWAs) coupled with strong capital generation. With a very healthy capital base, particularly noteworthy given the standardised approach for RWA calculation and the Supervisory Review and Evaluation Process (SREP) requirement, Bank Burgenland maintains a strong regulatory capital buffer.

While the asset risk intensity is higher compared to other real estate lenders within the Austrian peer group and across the European region, Bank Burgenland's regulatory capital position remains resilient. However, it is important to note that the ratio has been volatile due to the participation in Targeted Longer-Term Refinancing Operations (TLTRO), the public sector lending portfolio, and other calculation effects. Despite these fluctuations, Bank Burgenland maintains a strong capital foundation, ensuring its ability to meet regulatory requirements and navigate market challenges effectively.

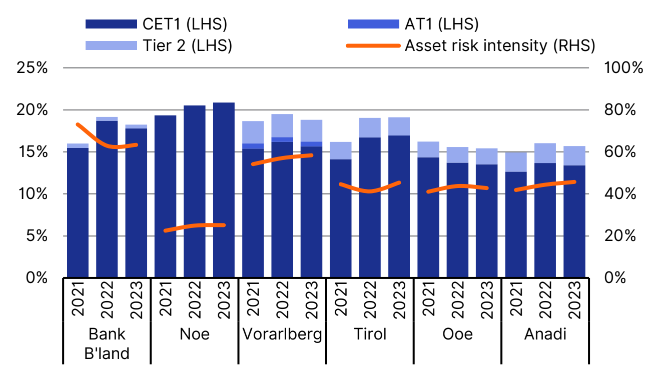
Figure 8: Key capital metrics

8.1 Core capital



Source: SNL, Scope Ratings

8.2 Peer comparison

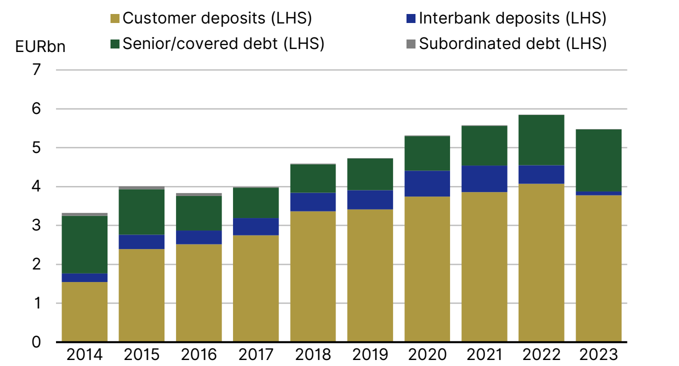


Vorarlberg, Tirol, Ooe as of H1'23. Source: SNL, Scope Ratings

Bank Burgenland's capital generation capacity has been sound in recent years as the track record in retaining profits has been strong. Capital accumulation is also achieved through the allocation to the fund for general banking risks. In 2021, Bank Burgenland contributed EUR 1.5m to this fund, bringing the total reserve to EUR 66m at subgroup level and EUR 52.5m on an unconsolidated basis.

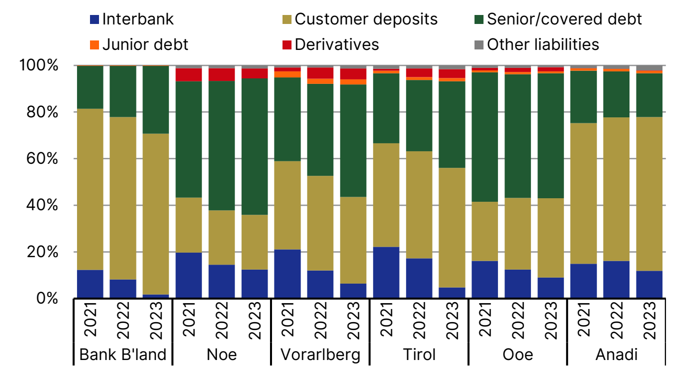
Bank Burgenland's dividend payments of around EUR 30m annually to its parent company GRAWE are mainly used to build up reserves on the group level. The dividend may be reduced in agreement with the shareholder to allow for additional profit retention. The sound capitalisation is also underpinned by a high leverage ratio of 12.8% at end-2022 which also compares well to its Austrian peers.

Figure 9: Funding profile, historical



Source: SNL, Scope Ratings

Figure 10: Funding structure versus peers



Vorarlberg, Tirol, Ooe as of H1'23. Source: SNL, Scope Ratings

Balanced funding structure

Over the past decade, Bank Burgenland has experienced substantial growth in its deposit base, bolstering the expansion of its loan book. Furthermore, the bank's funding base is fortified by the issuance of senior secured debt and covered bonds. As of August 2023, Bank Burgenland has issued covered bonds totalling approximately EUR 128m (FY 2023 plan: EUR 181m) and EUR 117m of senior preferred bonds through placements in both private and capital markets (FY 2023 plan: EUR 159m). This balanced funding structure positions Bank Burgenland favourably among its Austrian peers.

Hypo-Bank Burgenland AG, serving as the parent entity of the GRAWE banking group, operates as the central point of entry for resolving various Austrian subsidiaries. Since 2022, the bank has consistently met the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements in all quarters, facilitated by multiple senior bond issuances.

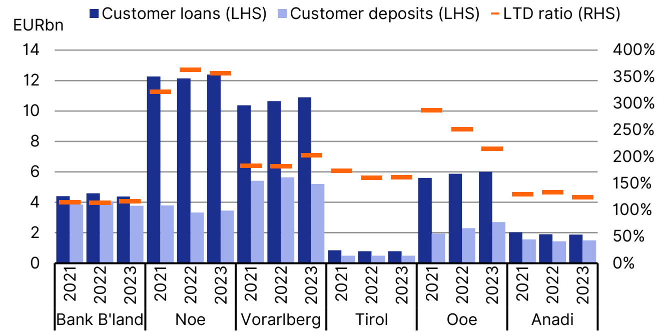
As of the end of June 2023, the MREL of Total Risk Exposure Amount (TREA) stood at a robust 33.6%, significantly exceeding the minimum requirement of 23.9%. Additionally, the subordinated ratio of TREA also surpassed regulatory requirements, registering at 10.7%. These metrics underscore Hypo-Bank Burgenland AG's strong compliance with regulatory obligations and its robust capital adequacy.

Comfortable liquidity position

Bank Burgenland maintains a strong liquidity position, evident in its robust Liquidity Coverage Ratio (LCR) of 168.6% as of the end of June 2023, comfortably exceeding regulatory requirements. The bank's liquidity portfolio primarily comprises highly liquid assets, aligning with Basel III liquidity standards. In 2020, Bank Burgenland participated in the TLTRO III refinancing operations, securing a total volume of EUR 430mn. However, this facility has since been discontinued, with the final tranche of EUR 100m repaid in Q3 2023.

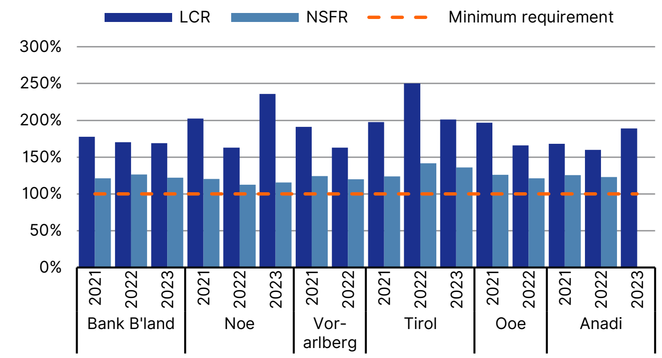
Furthermore, the bank's Net Stable Funding Ratio (NSFR) stood at comfortable 122% as of the end-June 2023. Looking ahead, we anticipate Bank Burgenland's liquidity to remain stable, supported by its prudent liquidity management practices and adherence to regulatory guidelines.

Figure 11: Customer deposits and loan-to-deposit ratio



Vorarlberg, Tirol, Ooe as of H1'23. Source: SNL, Scope Ratings

Figure 12: Liquidity coverage ratio and net stable funding ratio



Bank B'land, Tirol as of H1'23. Source: Bank Burgenland, SNL, Scope Ratings

Debt ratings

Short-term debt

Bank Burgenland's short-term credit rating is derived from the long-term issuer credit rating. The choice of the short-term rating reflects the strength of the liquidity profile of the group and access to central bank funding.

Senior unsecured debt (preferred)

We rate Bank Burgenland's senior unsecured debt (preferred) at the level of the issuer rating.

Senior unsecured debt (subordinated)

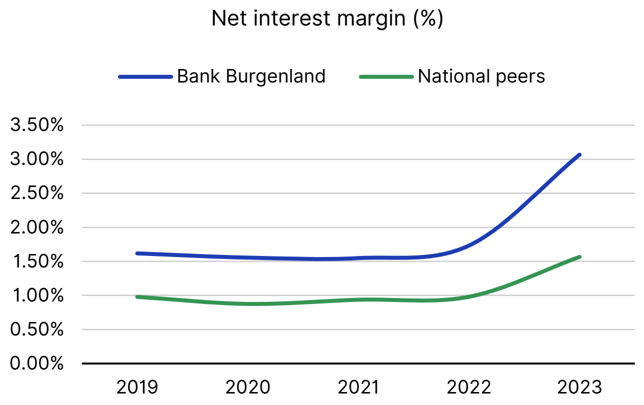
We rate Bank Burgenland's senior unsecured debt (subordinated)one notch lower than the issuer rating. This additional downward notch reflects its statutory subordination.

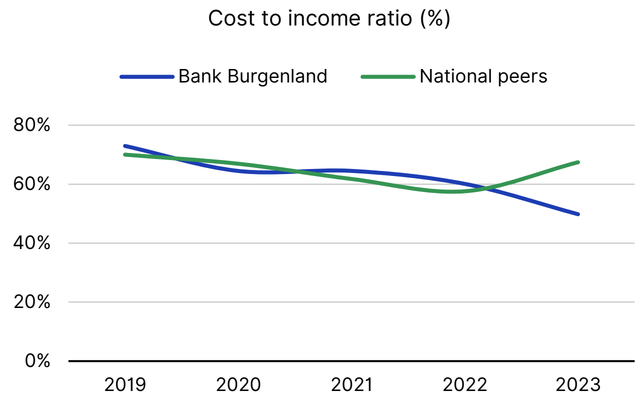
Credit rating list

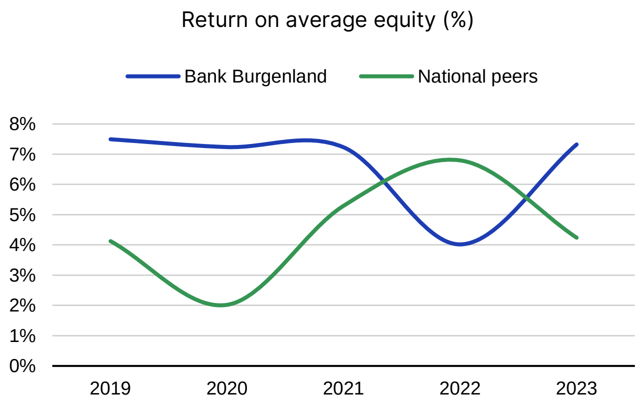
		Credit rating	Outlook
Issuer	**Bank Burgenland**		
	Issuer rating	A-	Stable
	Short-term debt	S-2	Stable
	Senior unsecured debt (preferred)	A-	Stable
	Senior unsecured debt (subordinated)	BBB+	Stable
	Covered bonds	AAA	Stable

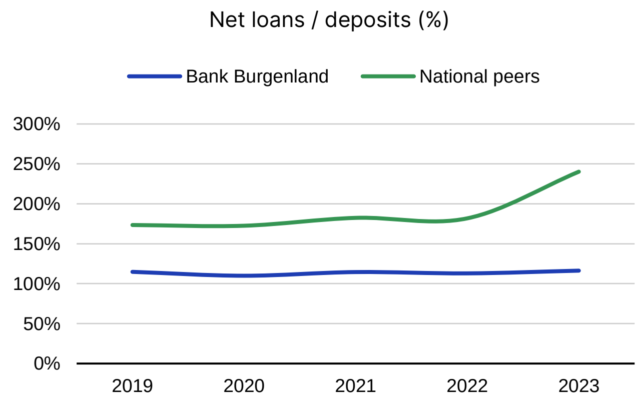
Financial appendix

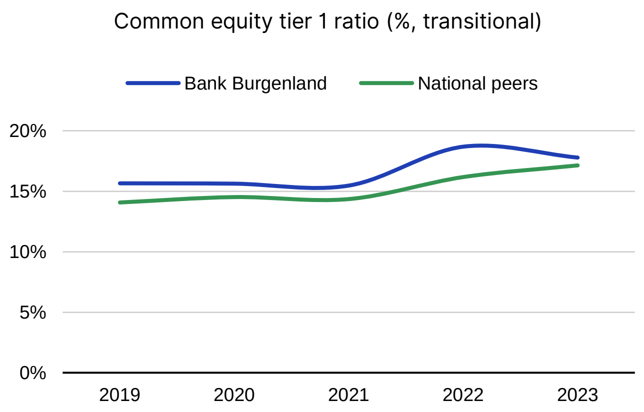
I. Appendix: Peer comparison

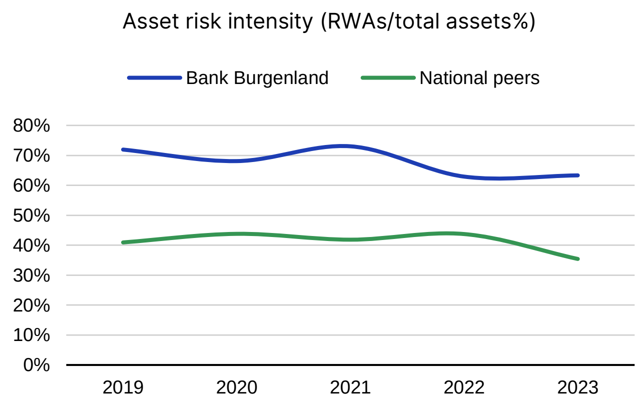












National peers: HYPO NOE Landesbank für Niederösterreich und Wien AG, Hypo Vorarlberg Bank AG, Hypo Tirol Bank AG, Oberösterreichische Landesbank Aktiengesellschaft, Austrian Anadi Bank AG
Source: Bank Burgenland, SNL, Scope Ratings

II. Appendix: Selected financial information – Bank Burgenland

	2019	2020	2021	2022	2023
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	619.9	1,100.5	1,123.1	1,199.0	1,090.8
Total securities	765.6	678.3	654.9	646.2	643.5
of which, derivatives	NA	NA	NA	NA	NA
Net loans to customers	3,922.4	4,118.5	4,415.7	4,600.7	4,394.1
Other assets	278.8	315.9	339.4	353.6	381.8
Total assets	**5,586.7**	**6,213.1**	**6,533.1**	**6,799.5**	**6,510.2**
Liabilities					
Interbank liabilities	494.8	663.1	688.4	478.6	100.4
Senior debt	810.5	891.2	1,020.4	1,289.1	1,594.2
Derivatives	NA	NA	NA	NA	NA
Deposits from customers	3,415.7	3,745.9	3,855.2	4,074.6	3,776.9
Subordinated debt	12.2	12.2	12.2	10.2	10.2
Other liabilities	NA	NA	NA	NA	NA
Total liabilities	**4,906.2**	**5,500.3**	**5,770.4**	**6,017.8**	**5,684.8**
Ordinary equity	680.4	712.9	762.7	781.7	825.3
Equity hybrids	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**5,586.7**	**6,213.1**	**6,533.1**	**6,799.5**	**6,510.2**
Core tier 1/ common equity tier 1 capital	*629.1*	*661.0*	*738.0*	*837.0*	*733.0*
Income statement summary (EUR m)					
Net interest income	84.6	87.1	93.6	109.5	192.9
Net fee & commission income	72.2	72.9	86.0	85.8	80.4
Net trading income	2.3	8.7	12.3	5.3	3.8
Other income	13.7	17.2	13.9	13.7	12.6
Operating income	**172.8**	**186.0**	**205.9**	**214.3**	**289.8**
Operating expenses	126.1	119.9	132.8	128.8	144.4
Pre-provision income	**46.7**	**66.1**	**73.1**	**85.5**	**145.4**
Credit and other financial impairments	-17.6	-0.6	6.2	35.3	65.9
Other impairments	0.0	0.0	0.0	0.0	0.0
Non-recurring income	NA	NA	NA	NA	0.0
Non-recurring expense	NA	NA	NA	NA	0.0
Pre-tax profit	**64.3**	**66.7**	**66.9**	**50.2**	**79.6**
Income from discontinued operations	0.0	0.0	0.0	0.0	0.0
Income tax expense	14.6	16.3	13.6	19.2	20.7
Other after-tax Items	0.0	0.0	0.0	0.0	0.0
Net profit attributable to minority interests	0.0	0.0	0.0	0.1	0.0
Net profit attributable to parent	**49.7**	**50.4**	**53.3**	**31.0**	**58.9**

Source: Bank Burgenland, SNL, Scope Ratings

III. Appendix: Selected financial information – Bank Burgenland

	2019	2020	2021	2022	2023
Funding and liquidity					
Net loans/ deposits (%)	114.83%	109.95%	114.54%	112.91%	116.34%
Liquidity coverage ratio (%)	128.02%	153.53%	177.45%	170.30%	NA
Net stable funding ratio (%)	NA	125.00%	121.16%	126.27%	NA
Asset mix, quality and growth					
Net loans/ assets (%)	70.21%	66.29%	67.59%	67.66%	67.50%
Problem loans/ gross customer loans (%)	1.51%	1.22%	NA	NA	NA
Loan loss reserves/ problem loans (%)	96.72%	119.38%	NA	NA	NA
Net loan growth (%)	9.05%	5.00%	7.22%	4.19%	-4.49%
Problem loans/ tangible equity & reserves (%)	8.13%	6.58%	NA	NA	NA
Asset growth (%)	3.04%	11.21%	5.15%	4.08%	-4.26%
Earnings and profitability					
Net interest margin (%)	1.62%	1.56%	1.55%	1.73%	3.07%
Net interest income/ average RWAs (%)	2.26%	2.11%	2.08%	2.39%	4.59%
Net interest income/ operating income (%)	48.97%	46.86%	45.46%	51.09%	66.56%
Net fees & commissions/ operating income (%)	41.78%	39.19%	41.80%	40.05%	27.76%
Cost/ income ratio (%)	72.96%	64.48%	64.50%	60.11%	49.81%
Operating expenses/ average RWAs (%)	3.36%	2.91%	2.95%	2.82%	3.44%
Pre-impairment operating profit/ average RWAs (%)	1.25%	1.60%	1.62%	1.87%	3.46%
Impairment on financial assets / pre-impairment income (%)	-37.69%	-0.96%	8.42%	41.24%	45.28%
Loan loss provision/ average gross loans (%)	-0.42%	0.55%	NA	NA	NA
Pre-tax profit/ average RWAs (%)	1.71%	1.62%	1.49%	1.10%	1.89%
Return on average assets (%)	0.90%	0.85%	0.84%	0.47%	0.88%
Return on average RWAs (%)	1.32%	1.22%	1.19%	0.68%	1.40%
Return on average equity (%)	7.49%	7.24%	7.23%	4.02%	7.32%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	15.66%	15.63%	15.47%	19.15%	17.78%
Tier 1 capital ratio (%, transitional)	15.66%	15.63%	15.47%	19.15%	17.78%
Total capital ratio (%, transitional)	16.13%	16.01%	15.98%	19.61%	18.24%
Leverage ratio (%)	9.90%	9.30%	11.57%	12.83%	NA
Asset risk intensity (RWAs/ total assets, %)	71.93%	68.08%	73.03%	64.30%	63.32%
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: Bank Burgenland, SNL, Scope Ratings

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Scope affirms Bank Burgenland's A- issuer rating with Stable Outlook LINK, January 2024

Republic of Austria, Rating Report, LINK, December 2023

Scope revises Austria's Outlook to Negative from Stable, affirms ratings at AAA LINK, July 2023

Applied Methodologies

Financial Institutions Rating Methodology, February 2023

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