HYPO–Bank Burgenland AG

Austrian Hypothekenpfandbriefe - Performance Update

Summary

The **AAA rating** of HYPO-Bank Burgenland AG (Bank Burgenland) mortgage covered bonds (Hypothekenpfandbriefe) benefits from a **buffer of two notches** against a rating deterioration from the issuer rating (A-/Stable). The outlook is stable. An **overcollateralisation of 10%** supports the current rating. The rating reflects the following assessments:

Covered bond rating anchor: A-/Stable

Bank Burgenland's A-/Stable issuer rating reflects the bank's profitable regional franchise in Austria, strong real estate market access, and recurring earnings from institutional banking services. As part of GRAWE Banking Group, it benefits from group-wide risk controls, a conservative strategy, and prudent capital management.

First Recourse Assessment: + up to 5 notches	**Notches**
Covered Bonds Preference Regime Austrian mortgage covered bonds are exempt from bail-in and benefit from statutory preference ranking them ahead of other liabilities of the issuer.	+2
Country-Level Institutional Framework scoring: 79/100 The institutional framework for Austrian covered bonds benefits from robust legislation and supervision, favourable regulatory treatment, a diversified investor base, and growing market relevance. Nevertheless, the relatively limited track record of mortgage Pfandbriefe constrains their importance in the context of system-wide funding.	+2
Issuer-Level Programme Resilience scoring: 51/100 The programme funds core residential and commercial mortgage lending through regular issuance to third-party investors, supported by statutory asset segregation under the Pfandbrief Act (PfandBG) and operation within a single Austrian resolution regime. This is balanced by its small market presence, lack of benchmark issuance, a moderately granular pool with commercial exposure, and a material open, unhedged interest-rate position.	+1

Second Recourse Assessment: + up to 3 notches	**Notches**
Payment continuity enhancement scoring: 64/100 The programme benefits from a legal, liquidity and governance framework, including a statutory 180-day liquidity buffer on its hard bullet bonds, full segregation of the cover pool, conservative indexed LTVs and oversight. These strengths are balanced by absent present value tests, hard-bullet bond repayments, no concentration or affordability limits, constrained post-insolvency issuance flexibility, and a non-mandatory framework for market risk mitigation.	+3

Cover pool support analysis: OC: 10%

The AAA rating relies on second recourse, as the five notches of uplift available under first recourse are insufficient to support the rating. It is therefore supported by one additional notch from Scope's second recourse assessment and 10% supporting overcollateralisation. Credit risk assumptions include a distressed default rate of 22.1% and a distressed recovery rate of 63.7%. The supporting overcollateralisation mainly reflects interest rate and maturity mismatches, with the most adverse scenario combining falling interest rates and high prepayments.

Covered bond rating
AAA

Outlook
Stable

Rating supporting Overcollateralisation
10%

Rating Buffer (notches)
2

Issuer rating
A-

Outlook
Stable

Distressed default rate
22.1%

Distressed recovery rate
63.7%

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Related research

Scope affirms Hypo-Bank Burgenland AG's Austrian mortgage covered bond rating at AAA, Stable Outlook more research →

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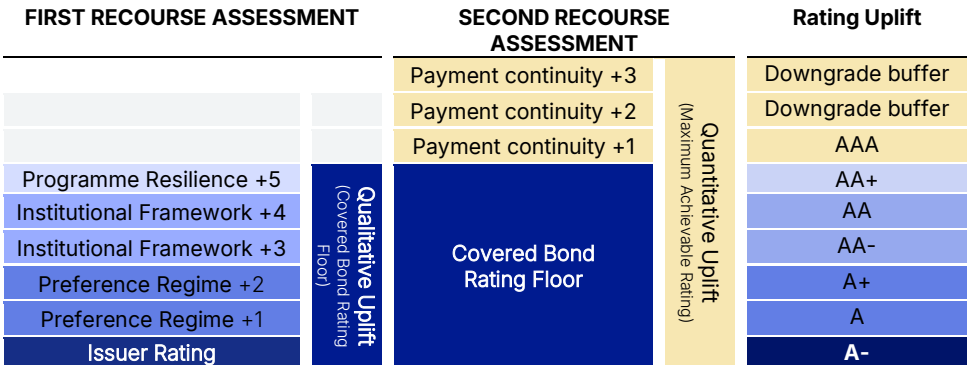
1. Rating composition

Table 1: Rating building blocks



2. Changes since the last performance update

Ratings are anchored at Issuer Rating of A-/Stable

Following the publication of Scope's updated Covered Bond Rating Methodology on 23 July 2026, the programme's AAA/Stable covered bond rating remains unchanged and analytically supported by the second recourse assessment. The rating continues to be anchored by the issuer rating of A-/Stable. The revised methodology provides five notches of uplift from the first recourse assessment and up to three notches from the second recourse assessment, maintaining the maximum combined uplift at eight notches.

The issuer, HYPO-Bank Burgenland was affirmed at A-/Stable in January 2026. The rating remains supported by a profitable and well-established regional banking franchise, strong capitalisation, solid funding and liquidity metrics, and a granular retail deposit base.

Austria was affirmed at AA+/Negative in September 2026. The rating remains supported by a wealthy and diversified economy, a sound external position, a stable banking sector, and strong debt affordability. However, the Negative Outlook reflects persistent fiscal challenges, including elevated budget deficits, rising public debt, and ageing-related spending pressures, alongside a modest medium-term growth outlook. Ongoing fiscal consolidation efforts and structural reforms will be important to stabilise public finances and strengthen Austria's longer-term growth potential.

As of September 2026, the cover pool increased slightly to EUR 1.64bn from EUR 1.62bn one year ago, while mortgage assets rose to EUR 1.63bn from EUR 1.59bn. Residential loans increased to 76.2% of the mortgage loan pool from 75.4%, with commercial mortgages declining correspondingly. The average loan size increased to EUR 245k from EUR 237k. Pool concentration also increased moderately, with the top-10 exposures accounting for 18.9% of mortgage assets versus 17.2% a year earlier. Indexed weighted-average LTVs remained broadly stable at 55.6% for residential and 53.6% for commercial loans. Interest-only and bullet loans increased to 15.9% from 13.9%, while floating-rate loans rose to 57.1% from 54.5%. The weighted-average life of the cover assets increased modestly to 7.2 years from 7.0 years.

Covered bonds outstanding increased to EUR 1.01bn from EUR 0.90bn, while the weighted-average life of the liabilities extended to 9.7 years from 8.9 years. Overcollateralisation declined to 62.2% from 79.8%.

Austria's housing market has shown signs of recovery after the correction observed in 2023-24. Residential property prices increased by around 3%-5% year-on-year in 2026, according to OeNB and Statistics Austria data, supported by resilient labour market conditions and improving affordability. Mortgage credit quality remains robust, while the previous decline in house prices has reduced valuation pressures. Although higher interest rates and weak economic growth continue to constrain demand, current market trends remain supportive, in particular to residential mortgage performance and collateral values.

3. Rating sensitivities

The upside scenario for the rating and Outlook

- not applicable as the rating is the highest achievable.

The downside scenarios for the rating and Outlook (individually and/or collectively):

- An issuer rating downgrade by more than two notches
- A deterioration in the first recourse uplift by more than two notches
- A deterioration in the second recourse uplift that would reduce the potential credit support from the cover pool
- Available or committed OC below rating-supporting or legal minimum

4. The issuer

A-/Stable issuer rating driven by profitable regional franchise, GRAWE support, and prudent capital build

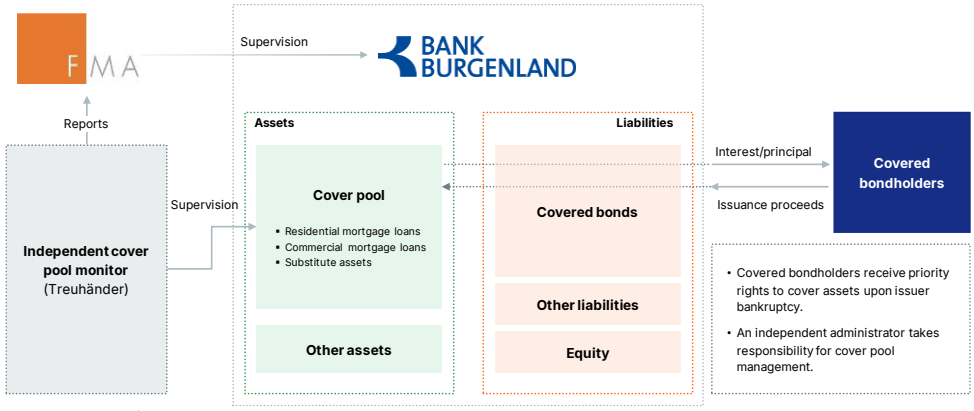
The A-/Stable issuer rating reflects Bank Burgenland's well-established, profitable, regionally focused business model in the Austrian state of Burgenland, the Vienna metropolitan area, Carinthia and Styria, complemented by its good access to real estate markets in its home markets and in the rest of 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. Further details on our credit assessment of Bank Burgenland are available at scoperatings.com.

5. Programme structure

On-balance sheet issuance model under the Austrian PfandBG

Bank Burgenland issues covered bonds on balance sheet under the Austrian PfandBG, supervised by the FMA. Cover assets, which may also be pooled from other banks via fiduciary arrangements (Treuhandschaft), are ringfenced in a cover register. Upon insolvency, the pool becomes a special estate, giving bondholders priority claims plus recourse to the general estate. Bonds do not accelerate following resolution or insolvency of the issuer. A court-appointed special administrator, chosen after consulting the FMA, manages the pool and collects payments, sell assets and raise bridge financing. The FMA approves programmes with the OeNB and can order audits. A cover pool monitor (Treuhänder) oversees registration, must consent to removing assets and adding hedges, confirms cover before each issue and reports risks to the FMA.

Figure 1: Issuance structure



Source: Scope Ratings

6. First Recourse Assessment

Up to five notches under the first recourse

The first recourse assessment determines the likelihood that a covered bond remains a going-concern funding instrument during issuer distress. This is reflected in an uplift of up to five notches on top of the issuer rating. It reflects the Covered Bonds Preference Regime (+2); the Country-Level Institutional Framework (+2) and the Issuer-Level Programme Resilience (+1).

6.1 Covered Bonds Preference Regime (CBPR)

Two notches from statutory preference regime

The programme benefits from a two-notch uplift under the CBPR. This is because Austrian covered bonds benefit from senior secured preference and a statutory bail-in exemption. The Austrian transposition of the BRRD (BaSAG) ranks covered bonds ahead of other liabilities and exempts secured liabilities, including covered bonds and related hedging instruments, from bail-in up to the value of the security.

6.2 Country-Level Institutional Framework (CLIF)

Two notches from country-level institutional framework

The programme benefits from a two-notch uplift under the CLIF, reflecting the integration of Austrian mortgage covered bonds within Austria's financial, legal and regulatory system.

Score	**79**	100	75	50	25	1
Legal and Regulatory Anchoring	Weight					
Covered bond legislation	50.0%	○	●	○	○	○
Stability and predictability	50.0%	○	○	●	○	○
Institutional Commitment	Weight					
Covered bonds' funding role	50.0%	○	●	○	○	○
Preferential treatment	50.0%	●	○	○	○	○
Market Institutionalisation	Weight					
Investor-base: depth and stability	50.0%	○	●	○	○	○
Secondary-market resilience in stress	50.0%	●	○	○	○	○

CLIF Classification Score	*100-85.0*	*84.9-60.0*	*59.9-25.0*	*24.9-1.0*
Implied notches	3	2	1	0
Adjustment		n/a		
Final notches		**2**		

6.2.1 Legal and Regulatory Anchoring

Comprehensive legislation and demonstrated stability

The Austrian covered bond framework benefits from a robust legal and supervisory foundation aligned with the EU Covered Bond Directive. It provides strong investor protection through cover-pool segregation, prudent collateral standards, independent monitoring, and comprehensive requirements on liquidity, risk management, overcollateralisation and transparency. These strengths are balanced by limited national distinctiveness, and a comparatively limited track record through major market stress periods.

6.2.2 Institutional Commitment

Strong relevance with solid regulatory backing

Austria's covered bond market benefits from strong institutional and regulatory support. Covered bonds enjoy preferential treatment under the EU framework, including favourable capital requirements, HQLA status, Eurosystem collateral eligibility and bail-in exemption. As a euro area member, Austria also benefits from integrated monetary policy, harmonised supervision and broad investor access. Covered bonds have become an important funding tool for Austrian banks, with outstanding volumes reaching 20% of GDP in 2025, consistent with a strong level of market relevance. Although smaller than core markets, Austria's covered bond sector is well established.

6.2.3 Market Institutionalisation

Diversified issuance profile supports resilient secondary market liquidity

Austria's covered bond market benefits from a diversified issuance profile, serving both domestic and international investors across benchmark and smaller-format transactions. Benchmark issuance has remained uninterrupted over the past decade, with activity in larger transactions increasing in recent years. Secondary-market liquidity is expected to remain resilient, supported

by Austria's strong credit standing and orderly market performance under stress. This is balanced by a lower reliance on jumbo issuance than some peer markets.

6.3 Issuer-Level Programme Resilience (ILPR)

The programme benefits from a one-notch uplift under the ILPR, reflecting the likelihood that the programme remains relevant, actively maintained and operational during issuer stress and through resolution.

One notch from issuer-level programme resilience

Score	**51**	100	75	50	25	1
Programme Strategic Relevance	Weight					
Scale and role in funding strategy	50.0%	○	○	●	○	○
Management commitment and signalling	50.0%	○	○	●	○	○
Operational & Issuance Stability	Weight					
Issuance regularity and predictability	50.0%	○	○	●	○	○
Performance and structural stability	50.0%	○	○	○	●	○
Resolution Transferability & Continuity	Weight					
Structural setup and separability	33.3%	○	○	●	○	○
Operational continuity and complexity	33.3%	○	○	●	○	○
Cross-border complexity	33.3%	●	○	○	○	○

ILPR Classification Score	*100-85.0*	*84.9-60.0*	*59.9-25.0*	*24.9-1.0*
Implied notches	3	2	1	0
Adjustment			n/a	
Final notches			**1**	

6.3.1 Programme Strategic Relevance

The programme benefits from high strategic relevance to the issuer, refinancing residential and commercial mortgage lending that forms part of the issuer's core business. Covered bonds constitute a structural funding source rather than opportunistic market funding. The programme also demonstrates an established market presence, genuine placement with third-party investors, and participation in relevant industry bodies. Balancing these strengths, the programme remains modest in scale, with a market share of around 1% and disclosure, investor communication and stakeholder engagement are broadly in line with, rather than above, market standards.

Established funding tool with market standard commitment

6.3.2 Operational & Issuance Stability

The banks regular issuance and well-diversified maturity profile results in no material refinancing concentration across the maturity spectrum. Currency risk is absent as both, cover assets and covered bonds are denominated in euro. Asset-liability maturity mismatches are conservatively managed, with assets amortising faster than liabilities, whereas some longer-dated bonds benefit from call options. Credit performance is a strength, with reported arrears and non-performing loans at zero. These strengths are balanced by the issuer's reliance on private-placement issuance, with no benchmark transaction executed to date. In addition, the programme is exposed to a material unhedged interest-rate mismatch, as fixed-rate liabilities significantly exceed fixed-rate assets and no derivatives are in place.

regular issuance pattern and a well-diversified maturity profile

6.3.3 Resolution Transferability & Continuity

The programme benefits from a robust Austrian covered bond framework that supports asset segregation and continuity of payments in a resolution scenario. Cover assets form a separate estate under the Austrian PfandBG and remain protected from third-party claims until covered bondholders are fully satisfied. The cover pool comprises exclusively Austrian residential and commercial mortgage loans eligible under PfandBG and CRR Article 129. While issuance structures are largely conventional, some bonds include issuer call options and a limited number of long-dated private placements. At EUR 1.6bn, the cover pool represents less than 1% of the Austrian residential mortgage market, supporting potential transferability, although pool concentration is more pronounced, with the ten largest exposures accounting for 18.9% of total mortgages. Cross-border complexity is limited, as the issuer, parent, cover assets and resolution framework are all located in Austria and operate within a single euro area resolution regime.

Robust framework, Austrian assets, limited complexity only

7. Second Recourse Assessment

Up to three notches under the Payment Continuity Enhancement

The qualitative second recourse assessment evaluates the likelihood of timely payment following a transition from the first to second recourse. It provides up to three additional notches of uplift under the Payment Continuity Enhancement (PCE) assessment, on top of the issuer rating after the application of the five-notch first recourse uplift.

Current overcollateralisation of 62.2% as of September 2026 is sufficient to support the AAA rating. Our cover pool analysis shows that only 10% overcollateralisation is required to support the six-notch uplift. This level of supporting OC is driven primarily by maturity mismatches that arise under the assumption of high asset prepayments. As such, the programme is most sensitive to sharply declining interest rates, falling -1% under the assigned rating stress, combined with prepayment rates of up to 22%.

7.1 Going concern after issuer insolvency

Robust insolvency protection for bondholders

The Austrian covered bond framework ensures robust segregation of cover assets through registration in the statutory cover register under the PfandBG. Registered assets remain identifiable at all times and, upon issuer insolvency, form a separate estate protected from third-party claims and excluded from the general insolvency estate until covered bondholders' and eligible derivative counterparties' claims are satisfied. Asset substitutions and withdrawals are subject to trustee oversight and ongoing coverage requirements, while insolvency and resolution laws ensure separate administration and adequate funding of the programme.

Cover assets remain on the issuer's balance sheet and therefore do not depend on true-sale perfection or mortgage re-assignment. Following insolvency, a special administrator may collect receivables, dispose of assets and arrange bridge financing for the benefit of covered bondholders. The framework also benefits from oversight by the Financial Market Authority and an independent cover pool monitor. Covered bondholders and derivative counterparties benefit from exclusive preferential claims on the cover pool. Statutory provisions largely eliminate set-off risk and significantly reduce claw-back concerns. Commingling risk exists as collections are initially credited to the issuer's accounts but is mitigated by continuous monitoring, timely appointment of a special administrator and substantial excess cover.

Covered bonds and potential derivatives are neither subject to automatic acceleration nor bail-in following issuer insolvency or resolution.

7.2 Payment Continuity Enhancement (PCE)

Three notches from payment continuity enhancement

The programme benefits from a maximum three-notch uplift under the PCE reflecting the likelihood of timely payments once payment obligations shift from the first to the second recourse.

Score	**64**	100	75	50	25	1
Continuity Protection	Weight					
Liquidity risk mitigants	40.0%	○	○	●	○	○
Derivatives	20.0%	●	○	○	○	○
Enhancements post-insolvency	20.0%	○	●	○	○	○
Climate risk / ESG	20.0%	○	○	●	○	○
Asset & Risk Controls	Weight					
Asset quality	25.0%	○	○	●	○	○
Asset valuation	25.0%	○	●	○	○	○
Market risk	25.0%	○	○	●	○	○
Oversight	25.0%	○	●	○	○	○

PCE Classification Score	*100-85.0*	*84.9-60.0*	*59.9-35.0*	*34.9-15.0*	*14.9-1*
Implied notches	4	3	2	1	0
Adjustment		n/a			
Final notches		**3**			

7.2.1 Continuity Protection

Adequate safeguards support covered bond payment continuity

The programme's continuity protection assessment reflects strong liquidity safeguards, the absence of derivatives and post-insolvency protections.

Liquidity protection is supported by the statutory 180-day liquidity buffer, which, as of September 2026, is held entirely in Austrian sovereign bonds and therefore benefits from highest substitute-asset quality standard. The absence of derivatives eliminates counterparty exposure, replacement risk, collateral-posting requirements and derivative-related liquidity pressures.

Post-insolvency protection benefits from clear statutory powers granted to the special administrator to sell cover assets and arrange bridge financing. In addition, the entire registered cover pool, including overcollateralisation and the liquidity reserve, remains within the segregated estate until covered bondholders' claims have been satisfied in full. Programme administration and wind-down costs also continue to benefit from statutory protection.

ESG considerations benefit from the issuer's Green Bond Framework, which in principal allows for future green covered bond issuance and provides a basis for potential EU Taxonomy-aligned reporting.

These strengths are balanced by the absence of administrator powers to issue new covered bonds following issuer insolvency, limiting liability-management options to asset sales and bridge financing. All outstanding covered bonds are structured as hard bullets, such that liquidity protection under stress relies primarily on the liquidity reserve and issuer call rights rather than on a maturity-extension mechanism. ESG credentials are further constrained by the absence of any green covered bond issuance to date and by reporting practices that do not extend beyond standard market disclosure.

7.2.2 Asset & Risk Controls

Adequate collateral quality, but limited market risk safeguards

The programme's asset and risk controls benefit from conservative collateral standards, prudent valuation practices and robust programme oversight.

Cover assets are restricted to mortgage loans meeting Article 129 CRR requirements and are secured exclusively by Austrian collateral and the issuer voluntarily tightened its loan-to-value ceiling below the statutory default.

Asset valuation is supported by a prudent mortgage lending value methodology that excludes speculative elements and is performed independently of the credit approval process. Revaluations are conducted in accordance with the requirements of CRR Article 208, supporting the ongoing quality and reliability of collateral values.

Programme oversight benefits from a dedicated FMA and OeNB authorization and oversight, the involvement of an independent external trustee responsible for approving cover-pool registrations, and the recognised status of Austrian covered bonds as eligible collateral for Eurosystem monetary operations.

These strengths are balanced by the absence of several safeguards commonly found in stronger covered bond frameworks. Coverage is assessed on a nominal basis only, with no net-present-value test. Furthermore, the framework contains neither concentration limits nor performance-based eligibility filters. Most importantly, interest-rate and foreign-exchange risk management remain optional rather than mandatory, with no prescribed limits, stress tests or hedging requirements, leaving market-risk protection dependent on management practice rather than statutory or programme-level safeguards.

7.3 Cover pool support analysis

The cover pool analysis confirms that 10% supporting overcollateralisation is sufficient to provide the additional quantitative notch under the second recourse assessment, required for the AAA rating. In addition, the currently maintained overcollateralisation may support highest ratings assuming a hypothetical issuer downgrade by up to two notches to BBB.

Our cash flow analysis shows that the programme is most sensitive to a scenario combining interest rates down to -1% with high prepayment rates up to 22%.

7.3.1 Cover pool overview

As of Q3 2026, Bank Burgenland's cover pool consisted predominantly of Austrian mortgage loans with an outstanding balance of approximately EUR 1.63bn across 6,636 loans. Residential mortgages accounted for 75.6% of the cover pool, while commercial mortgage loans represented 23.6%. In addition, the cover pool benefits from EUR 11.8m (0.7%) of liquid assets eligible for central bank operations.

The mortgage portfolio is granular, with an average loan size of approximately EUR 245k and borrower concentration remaining moderate. However, the ten largest exposures account for 18.9% of total mortgage balances, reflecting larger loan exposures secured by multifamily properties. Asset quality is strong, with no non-performing loans reported in the cover pool. Residential loans are predominantly secured by first-ranking liens (97.2%), while the portfolio exhibits conservative indexed loan-to-value ratios, with weighted-average (whole-loan) indexed LTVs of 55.6% for residential loans and 53.6% for commercial loans.

The portfolio has a seasoned profile, with 53.2% of mortgage balances seasoned for more than five years, while only 20.6% were originated within the last two years. The interest-rate profile is predominantly floating rate, representing 57.1% of total mortgage balances, which increases borrowers' exposure to higher interest-rate volatility. Most of the fixed loans carry an interest reset date prior to final maturity. Bullet and interest-only loans account for 15.9% of the pool, with the remainder following amortising repayment schedules.

Geographically, the cover assets reflect the issuer's regional franchise and business focus. As such assets are concentrated in Vienna, which is the largest region, accounting for 51.6% of total mortgage balances, followed by Burgenland (17.7%), Carinthia (14.1%), Styria (9.6%) and Lower Austria (6.0%).

7.3.2 Covered bonds overview

The mortgage covered bond programme totalled EUR 1.0bn as of September 2026 and benefits from a granular funding structure consisting entirely of euro-denominated issuances. Covered bonds are predominantly fixed-rate instruments (94%) and have a weighted-average maturity of 9.7 years. Several bonds incorporate issuer call options which, if exercised, would reduce the weighted-average maturity to 5.6 years.

7.3.3 Cover pool analysis

For the granular mortgage portfolio, we applied a portfolio approximation approach based on a parametric default distribution (Inverse Gaussian).

The expected, lifetime default rate of 7.7% has been derived using the issuer's internal model and backtesting statistics together resulting in an average 1.25bps annual benchmark PD. The Distressed Default Rate (DDR) of 22.1% is derived from the Austrian benchmark DDR of 15% and adjusted for portfolio-specific risk factors, primarily reflecting borrower and loan concentration as well as the pool's exposure to commercial real estate. Together with the lifetime mean default rate this implies a coefficient of variation (CoV) of 43.3%.

The Austrian benchmark geographical distribution was approximated using latest Austrian population statistics, affecting the regional modifier, due to the concentration to Vienna, Burgenland and Carinthia. The borrower modifier reflects a top-ten borrower concentration of

Cover assets

Reporting date	Sep 2026	Sep 2025
Cover Assets (EUR bn)	1.64	1.62
Residential loans (%)	75.6	74.1
Commercial loans (%)	23.6	24.2
Substitute assets (%)	0.7	1.7

Mortgage general information

Reporting date	Sep 2026	Sep 2025
No. of loans	6,636	6,730
Avg. loan (EUR mn)	0.25	0.24
Top 10 borrowers (%)	18.9	17.2
LTV (indexed) (%)	55.1	55.3
NPLs (%)	0.0	0.0
Floating rate (%)	57.1	54.5

Repayment Type

Amortising (%)	84.1	86.1
Bullet/IO (%)	15.9	13.9
Others (%)	0.0	0.0

Mortgage asset location (%)

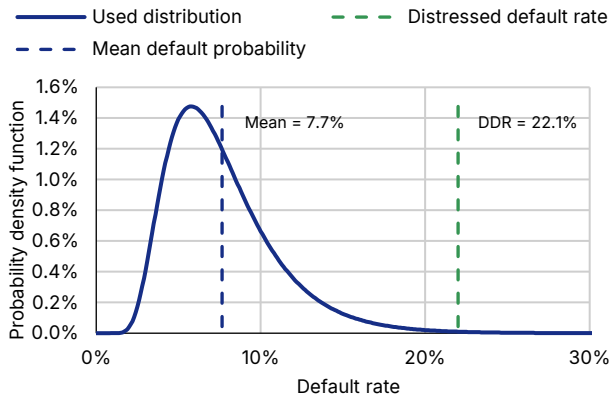
Reporting date	Sep 2026	Sep 2025
Vienna	51.6	48.5
Burgenland	17.7	18.6
Carinthia	14.1	15.3
Styria	9.6	9.8
Lower Austria	6.0	5.8
Others	1.0	2.0

Covered Bonds

Reporting date	Sep 2026	Sep 2025
Covered Bonds (EUR bn)	1.0	0.9
EUR (%)	100	100
Fixed (%)	94.2	90.7
Floating (%)	5.8	9.3

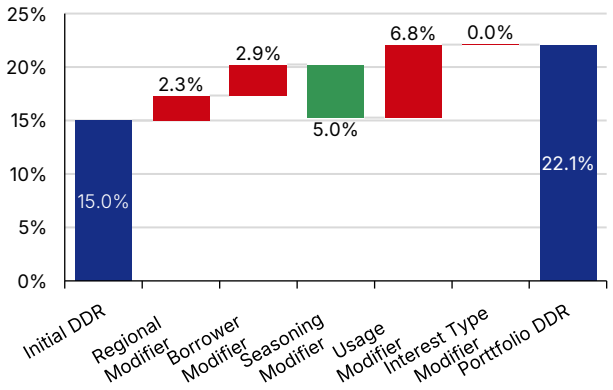
18.9%. In addition, the high share of non-owner-occupied loans (56%) increases the DDR, while pool seasoning provides a mitigating effect.

Figure 2: Default Rate Distribution



Source: Scope Ratings

Figure 3: Composition of Distressed Default Rate



Source: Scope Ratings

The recovery rate has been calculated at 95% under the base case and 63.7% under the distressed AAA scenario. The distressed recovery rate applies a 25% haircut to standard residential, amortising, owner-occupied first-lien loans, which account for 37.7% of the portfolio, and a 40% haircut to all other exposures.

7.3.4 Cash Flow Risk Analysis

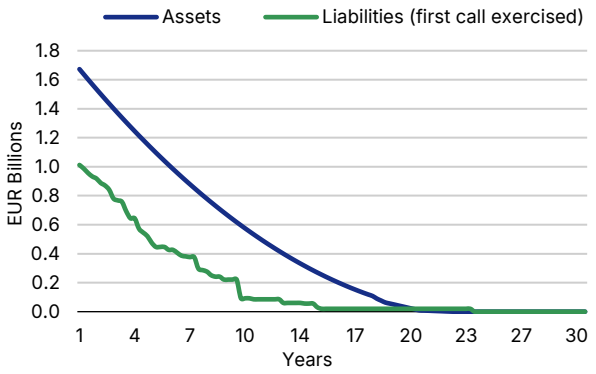
Bank Burgenland's covered bond rating can reach AAA based on the uplift under first recourse and second recourse. As such we have calculated a 10% overcollateralisation that can support an additional one notch uplift under the second recourse supporting the programme's AAA rating.

The programme is most sensitive to scenarios that combine high prepayment rates with declining interest rates. This is because prepaid funds are assumed to be reinvested in a cash account earning negative interest. Under the most severe stress scenario, cash balances may accumulate to up to EUR 360m, reducing available excess spread. Asset sales do not contribute to supporting overcollateralisation, as maturity mismatches are limited and the programme benefits from a well-matched asset-liability profile, assuming the exercise of bond call options.

Asset liability mismatches

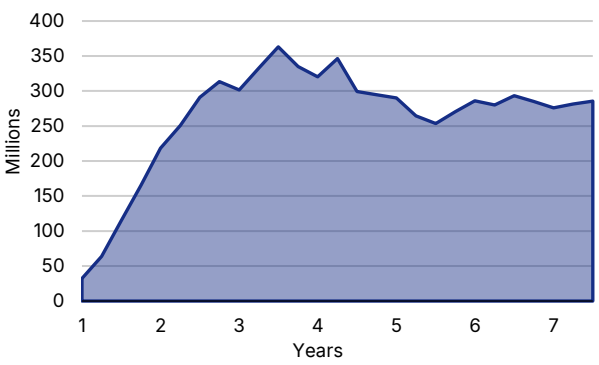
Reporting date	Bonds	Assets
WAL (in years)	9.7	7.2
WAL (first call in years)	5.6	na
Main currency (EUR in %)	100.0	100.0
Floating (in %)	5.8	57.1

Figure 4: Unstressed CF Profile



Source: Scope Ratings

Figure 5: Cash Account (IR Stress down/prepayments up)



Source: Scope Ratings

8. Sensitivity analysis

Programme sensitivities reflect hypothetical issuer downgrade

We have assessed a range of stress sensitivities, including front-loaded default scenarios, higher liquidity premiums, issuer downgrade scenarios, the non-execution of bond call rights and adverse climate risk assumptions. None of these sensitivity analyses resulted in a deterioration of the programme's rating outcome or an increase in the level of supporting overcollateralisation required to maintain the rating.

Bank Burgenland's mortgage covered bond ratings do benefit from a buffer against an issuer downgrade of up to two notches. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a two-notch downgrade would only increase the rating-supporting OC to 12%.

As a consequence, the rating may be downgraded upon: i) an issuer rating downgrade by more than two notches; ii) a deterioration in the first recourse uplift by more than two notches, iii) a deterioration in the second recourse uplift that would reduce the potential credit support from the cover pool and iv) available or committed OC below rating-supporting or legal minimum.

9. Environmental, social and governance (ESG) impact analysis

Climate stress scenarios support rating resilience

Governance factors are key for the analysis of Austrian covered bonds, and as such drive our first recourse and second recourse analysis. We complement our analysis with a sensitivity analysis of climate-change risks[1]. None had an impact on the rating or was deemed relevant to adjust the ratings supporting overcollateralisation.

Climate Risk Scenario	*Base*	*Orderly transition*	*Disorderly transition*	*Hot house*
Distressed Default Rate (%)	22.1	26.4	24.9	24.9
Distressed Recovery Rate (%)	63.7	60.2	61.6	61.8

[1]Climate risk credit impacts

Bank Burgenland has not yet issued any green covered bonds. However, the bank published its Green Bond Framework in October 2024. The framework outlines the Bank's commitment to financing environmentally sustainable projects, particularly energy-efficient residential and commercial buildings. The framework is aligned with the ICMA Green Bond Principles and supports certain UN Sustainable Development Goals (SDGs). Eligible assets include new constructions and renovations that meet strict energy performance criteria. The bank ensures transparent use of proceeds, regular impact reporting, and external verification. Green bonds may be issued as covered bonds, senior or subordinated instruments, and proceeds are allocated to a designated "Green Pool" of qualifying assets.

10. Country and Currency risk considerations

Country and currency risks are not a limiting factor

The Republic of Austria is currently rated AA+ with a negative outlook. Sovereign risk does not constrain the covered bond rating. Transfer and convertibility risks are considered limited given the sovereigns investment grade rating, the country's stable institutional framework, EU and euro area membership as well as its integration into European financial markets.

Country and currency risks are reflected across several elements of the analysis. These include qualitative assessments within the Institutional Framework and Payment Continuity Enhancement analyses where Austria's AA+ category sovereign rating is considered. Country risk is also incorporated quantitatively through assumptions regarding market liquidity, asset-sale discounts and spread volatility under stressed conditions. A potential one-notch downgrade of Austria would not affect the ratings of Bank Burgenland's covered bonds.

We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit), the risk of an institutional breakdown is pertinent risk factors for Austria.

11. Counterparty risk assessment

Counterparty risks well controlled

The programme is exposed to several counterparty roles performed within Bank Burgenland, including origination, servicing and account banking. However, counterparty risk is not constraining the rating. The rated covered bonds benefit from a robust regulatory framework and strong supervision by the Austrian FMA and OeNB. If a regulator were to intervene, we believe the strong alignment of interests between the bank and the covered bondholders would prevent any negative impact. We view positively the fact that collections are generally made via direct debit, allowing for a relatively swift redirection of payments if necessary.

Additionally, since Bank Burgenland does not use any derivatives, no swap counterparty exposure exists, which we treat positively. Exposures to account bank and credit institutions are governed by the statutory CQS requirement. Under Article 129 of the CRR, counterparty exposures must qualify for Credit Quality Step (CQS) 1 or 2 (equivalent to AAA to A-), which meets Scope's expectations for counterparties that support the highest ratings.

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Applied methodology

Covered Bonds Rating Methodology, July 2026

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