

Scope assigns Bank Burgenland first-time rating of A- with Stable Outlook

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

Rating action

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

Rating rationale

Scope's ratings on Bank Burgenland reflect its well-established, profitable, regionally focused banking business in the Austrian state of Burgenland, the Vienna metropolitan area and Styria, complemented by its good access to real estate markets in its home markets and in the rest of Austria. They also reflect the success that Bank Burgenland's institutional banking divisions have achieved in asset management and custodian bank services.

Together, Bank Burgenland, its banking subsidiaries Schelhammer Capital Bank and Sopron Bank, 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 is managed according to the arm's length principle, whereby the bank and its subsidiaries are integrated in GRAWE Group's risk control processes. Due to the group's mutual ownership structure, management is strongly focused on internal capital generation and conservative reserve building, which is reflected in its banking subsidiaries.

Bank Burgenland has achieved solid operating results and generally predictable profitability thanks to conservative underwriting standards and a quite diversified mix of banking businesses for its limited size. Scope expects the bank will be able to expand further in the coming years through acquisitions of corporate clients and mandates from institutional investors.

The bank has shown solid asset quality metrics in recent years. Its real estate and corporate loan portfolios are well diversified by type and industry respectively, and they have proven resilient to pandemic-related lockdowns. This has resulted in a significantly lower cost of risk combined with relatively high loan loss reserves (over 100%) when compared to domestic competitors.

The bank's regulatory capital base is solid, especially considering its asset risk intensity. Its leverage ratio is correspondingly high at 9.3%. However, good loan book growth has led to a steady decline in these ratios, which has thus far been partially offset by profit retention. The rating could face pressure from continual loan growth that led to a further decline in capital adequacy ratios.

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

Under Scope's bank rating methodology, the long-term sustainability assessment captures how relevant environmental, social and governance (ESG factor) factors as well as an issuer's preparedness for digital transition (D) might impact creditworthiness and its ability to repay debt. Scope has assigned an assessment of 'developing' to Bank Burgenland. The assessment reflects Scope's view that the bank has a strong commitment to sustainability. This is particularly evident in private banking subsidiary Schelhammer Capital Bank and asset manager Security Kapitalanlage AG. In terms of digital transformation, Bank Burgenland has been making good progress with its successful online banking offering (DADAT Bank) and custodian bank services (Die Plattform). With regard to Bank Burgenland's loan portfolio, Scope believes the environmental area has considerable potential for further development in the coming years.

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

Rating-change drivers

Positive rating-change drivers

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

Negative rating-change drivers

- Significant deterioration in the bank's economic environment, i.e. the economy in eastern Austria and particularly the real estate market there, could lead to a downgrade of the bank.
- Considerable reduction in capital adequacy resulting from continued, strong loan growth
- Any unexpected change in the risk appetite of Bank Burgenland, its subsidiaries or its parent company

Overview of the rating construct

Operating environment: supportive

Business model: consistent

Initial mapping refinement: low

Initial mapping: bbb-/bbb

Long-term sustainability: developing

Adjusted anchor: bbb-

Earnings capacity and risk exposures: very supportive

Financial viability management: comfortable

Additional rating factors: neutral factor

Standalone assessment: a-

External support: n/a

Issuer rating: A-

Stress testing and cash flow analysis

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

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Bank Rating Methodology, 26 January 2021), is available on <https://www.scooperatings.com/#!/methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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

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

Solicitation, key sources and quality of information

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

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

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

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

Regulatory disclosures

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

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The Credit Ratings/Outlooks were first released by Scope Ratings on 20 December 2021.

Potential conflicts

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

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