MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A2 long-term deposit and A3 long-term issuer ratings to Hypo-Bank Burgenland AG

26 Jan 2023

Frankfurt am Main, January 26, 2023 -- Moody's Investors Service (Moody's) has assigned first time A2 long-term and P-1 short-term bank deposit and A3 long-term and P-2 short term issuer ratings, all in domestic and foreign currency, to Hypo-Bank Burgenland AG (Bank Burgenland). The rating agency has further assigned a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA and A1/P-1 long- and short-term Counterparty Risk Ratings (CRR) and A1(cr)/P-1(cr) long- and short-term Counterparty Risk Assessments (CR Assessments). The outlook on the long-term deposit and issuer ratings is stable.

RATINGS RATIONALE

-- ASSIGNMENT OF BCA

With total assets of €6.5 billion as of December 2021, Bank Burgenland is a regional bank in Austria, with a focus on corporate banking, particularly for small and medium sized companies and the real estate sector. Further, the bank offers retail banking, private banking, and asset management services. As of year-end 2021, Bank Burgenland operated via 13 branches in Burgenland as well as one in Vienna and in Graz, respectively, plus five private banking sites and employed 745.

In assigning a baa1 BCA to Bank Burgenland, Moody's reflects the bank's sound financial fundamentals, underpinned by its strong capitalisation, good profitability, and primarily deposit-based funding profile. At the same time, the bank's assets incorporate geographic and sector concentrations to cyclical commercial real estate activities as well as significant market and operational risks, stemming from its private banking business and from guarantees provided to its insurance parent, which are linked to certain products. The bank's very strong capitalisation, measured by its Tangible Common Equity ratio of 16% and a leverage ratio of almost 12% (both as of year-end 2021) acts as a meaningful buffer against a potential materialisation of such risk factors.

Bank Burgenland's asset management and private banking activities provide for good diversification of the revenue sources and underpin the bank's sound to strong profitability, compared with domestic peers. The bank's pre-provision income generation constitutes a solid buffer against potential downside risks. Even the more challenging economic environment, which the rating agency expects to result in rising risk provisions and a softer revenue base from asset management and private banking activities should only have a limited impact on Bank Burgenland's profits.

Bank Burgenland's solvency profile is accompanied by a liquidity profile characterized by limited market funding dependence, given its focus on deposit funding paired with a sufficient volume of liquid resources.

For Bank Burgenland, governance risks are largely internally rather than externally driven. Moody's does not have any particular concerns; the rating agency sees Bank Burgenland's moderate governance risks mostly related to the management's less proactive risk and capital management in comparison with peers. Corporate Governance remains a key credit consideration and requires ongoing monitoring.

Headquartered in Eisenstadt, in the Eastern-Austrian region of Burgenland, and founded in 1928, the bank is fully owned by Grazer Wechselseitige Versicherung AG (GRAWE Group), an Austrian mutual insurer, and consolidates multiple entities which operate under their own brand names. The banking group GRAWE Bankengruppe was established in 2008, with Bank Burgenland as the leading institute, after GRAWE Group acquired Bank Burgenland in 2006.

-- ASSIGNMENT OF DEPOSIT AND ISSUER RATINGS

Bank Burgenland is subject to the EU Bank Recovery and Resolution Directive (BRRD), which Moody's considers an operational resolution regime; its Advanced Loss Given Failure (LGF) analysis takes into account the severity of losses faced by the different liability classes in resolution. The bank's long-term deposit and issuer ratings incorporate the bank's future issuance of additional loss-absorbing debt, as well as an expected growth in total assets as a result of Bank Burgenland's growth targets. This results in two notches of rating uplift for deposits and one notch of rating uplift for its issuer ratings from the bank's (Adjusted) BCA.

Because of the bank's small market share in the domestic banking system and constrains under the BRRD on governments to provide support to ailing banks, the rating agency assumes a low level of government support for Bank Burgenland, which does not result in any rating uplift.

-- OUTLOOK

The stable outlook on the long-term deposit and issuer ratings reflects Moody's expectation that potential pressures on asset risk and profitability caused by lower economic growth and the impact of inflation on the debt servicing capacity of corporates and households will not impair Bank Burgenland's financial profile over the next 12-18 months. Further, Moody's expects no material changes in the liability structure such that will result in a different rating uplift from its Advanced LGF analysis than currently.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Bank Burgenland's ratings could be upgraded if the bank's BCA improves, or upon a change in the bank's liability structure that results in lower expected losses for creditors, as assessed by Moody's Advanced LGF analysis, particularly if senior unsecured debt components were to account for a sustainably higher share of Bank Burgenland's total liabilities.

Bank Burgenland's BCA could be upgraded if the bank was to strengthen both its liquidity and solvency profile, demonstrated either a lower recourse to market funding or an increase in liquid assets combined with an improved asset quality, including lower sector concentrations and reduced market risk, and stronger capitalisation.

A rating downgrade is likely if Bank Burgenland's BCA is downgraded. In addition, a downgrade could result from a significant decrease in the volume of senior unsecured liabilities relative to its tangible assets by such an amount that it increases the severity of loss in our Advanced LGF analysis.

Bank Burgenland's BCA could be downgraded if its solvency profile weakened, as reflected in a deterioration in asset quality, capital or profitability beyond Moody's current expectations and a weakening of the combined liquidity profile because of higher market funding and lower liquid reserves.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Andrea Wehmeier
Vice President - Senior Analyst
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Alexander Hendricks, CFA
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454