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CREDIT OPINION

29 March 2023

New Issue

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Hypo-Bank Burgenland AG

New issuer

Summary

On 26 January 2023, we assigned first-time A2/P-1 deposit and A3/P-2 issuer ratings to Hypo-Bank Burgenland AG (Bank Burgenland), and a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA.

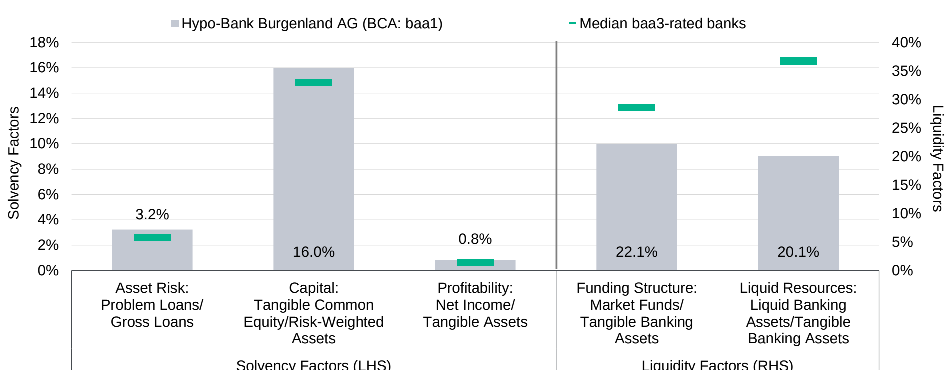
The ratings reflect Bank Burgenland's baa1 BCA and the application of our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class and results in two notches of rating uplift for the bank's deposit ratings and one notch of uplift for the issuer ratings. We do not incorporate any rating uplift for government support to Bank Burgenland because of the bank's small size in the context of the Austrian banking system.

Bank Burgenland's baa1 BCA 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 strong and diversified pre-provision income generation capacity and good capitalisation constitutes a solid buffer against potential downside risks. The bank's liquidity profile is characterized by limited market funding dependence, given its focus on deposit funding paired with a sufficient volume of liquid resources.

Exhibit 1

Rating Scorecard - Key financial ratios

Bank Burgenland



Sources: Company and Moody's Investors Service

RATINGS

Hypo-Bank Burgenland AG

Domicile	Austria
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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» Contacts continued on last page

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100

Credit strengths

» Strong capitalisation

» Sound profitability

» Limited market funding reliance

Credit challenges

» Concentration risks in highly cyclical CRE

» Significant market risk

» Sufficient liquidity only

Rating outlook

The stable outlook reflects our 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, we do not expect 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

» 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 our 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.

Factors that could lead to a downgrade

» 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 our current expectations and a weakening of the combined liquidity profile because of higher market funding and lower liquid reserves

Key Indicators

Exhibit 2
Hypo-Bank Burgenland AG (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[3]	CAGR/Avg.[4]
Total Assets (EUR Billion)	6.5	6.2	5.6	5.4	5.0	--
Total Assets (USD Billion)	7.4	7.6	6.3	6.2	6.0	--
Tangible Common Equity (EUR Billion)	0.8	0.7	0.7	0.6	0.7	--
Tangible Common Equity (USD Billion)	0.9	0.9	0.8	0.7	0.8	--
Tangible Common Equity / Risk Weighted Assets (%)	16.0	16.8	16.9	18.5	20.8	17.8[5]
PPI / Average RWA (%)	1.6	1.6	1.1	1.3	1.9	1.5[5]
Net Income / Tangible Assets (%)	0.8	0.8	0.9	1.1	1.1	0.9[5]
Cost / Income Ratio (%)	65.0	65.1	75.8	71.8	63.3	68.2[5]
Market Funds / Tangible Banking Assets (%)	22.1	20.9	19.8	19.8	24.7	21.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.1	20.5	14.8	17.4	25.4	19.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] Basel III; IFRS. [4] May include rounding differences because of the scale of reported amounts. [5] Simple average of Basel III periods. [6] Simple average of periods for the latest accounting regime.
Sources: Moody's Investors Service and company filings

Profile

Bank Burgenland) s a regional bank, headquartered in Eisenstadt (Austria), with select activities in Hungary, Slovakia and Germany. Bank Burgenland is 100% owned by Grazer Wechselseitige Versicherung AG (GRAWE Group), an Austrian insurance group, and consolidates multiple entities which operate under their own brand names.

Bank Burgenland is a universal bank with a focus on corporate banking, particularly for small and medium-sized enterprises (SMEs) and the real estate sector. Further, Bank Burgenland offers retail banking, private banking and asset management services. The bank was originally founded in 1928. After GRAWE Group acquired Bank Burgenland in 2006, the banking group GRAWE Bankengengruppe was established in 2008, with Bank Burgenland as the leading institute, after GRAWE Group acquired Bank Burgenland in 2006. As of year-end 2021, Bank Burgenland operated via 13 branches in Burgenland, and one each in Vienna and Graz. As of the same date, it had 745 employees.

In February 2022, the group disposed of its Hungary subsidiary Sopron Bank Zrt. Additionally, the private banking activities were merged under Schelhammer Capital AG, accounting for 37% of the €6.54 billion asset base figure as of year-end 2021.

Macro profile of Strong+

Bank Burgenland's BCA is supported by its Strong+ macro profile, which is derived from the group's weighted average credit exposures, reflecting 89% of exposure to Austria (Aa1, stable), 6% to the central Europe and 5% to other countries. Bank Burgenland's Strong + macro profile matches the assigned Austrian macro profile, which is largely determined by the country's very high economic and institutional strength, the government's financial strength and very low susceptibility to event risk. With the sale of Sopron Bank, the Austrian focus will increase even further.

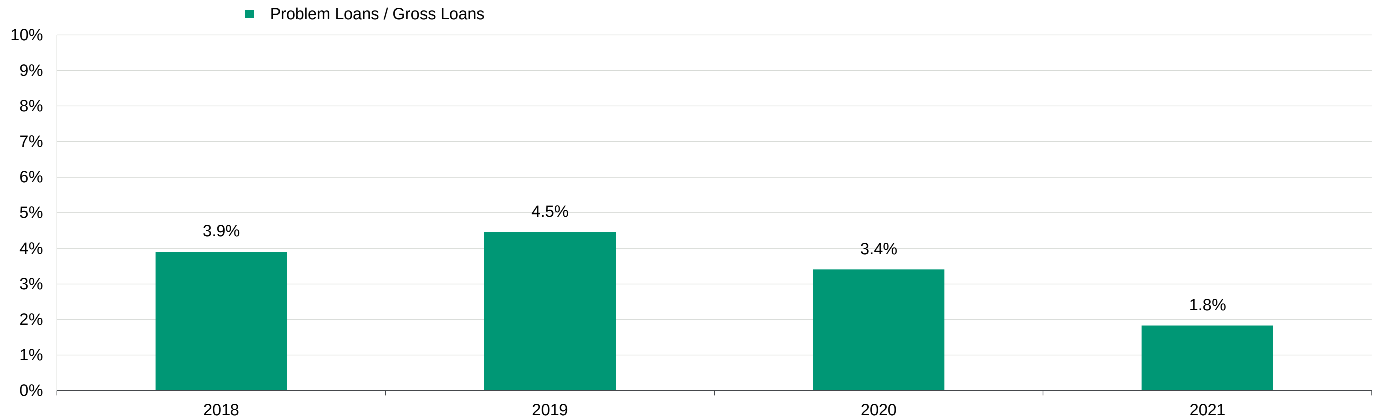
Detailed credit considerations

Strong asset quality, but concentration and market risks, combined with the economic downturn, pose risks

We assign an Asset risk score of ba1, four notches below the initial score, to reflect the bank's concentration risk in Commercial Real (CRE) and significant lending to SMEs in Burgenland, exposing the bank to the economic cycle, which we expect to weaken in 2023. The score also captures the bank's exposure to market risk, linked to guarantees Bank Burgenland provides to its parent, GRAWE Group.

Bank Burgenland's loan book accounts for 68.3% of its total assets. Although the sale of its previous Hungarian subsidiary Sopron Bank (closed in early 2022) led to an improvement in the nonperforming loan (NPL) ratio to below 2%, which is below the Austrian average of 2.6%, we expect a mild deterioration in asset quality in 2023 and 2024. The key driver for this deterioration will be a combination of an economic slowdown, high inflation and increasing interest rates, which will strain the ability of both retail and corporate customers to service their debt, hurting customers' disposable income and profitability.

Exhibit 3
The bank's NPLs showed significant improvement over the last several years, particularly in 2021, following the disposal of Sopron Bank



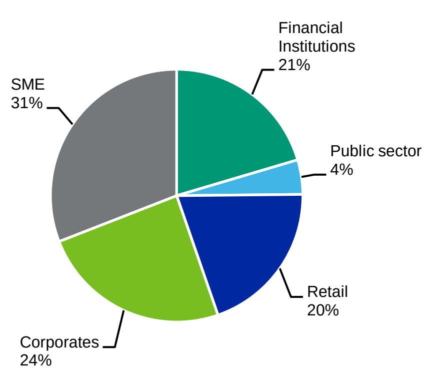
Sources: Company and Moody's Investors Service

SMEs, which account for 31% of the bank's exposure, are particularly exposed to economic volatilities as they have limited options in dealing with the economic challenges. These SMEs are mostly located in the Burgenland area, reflecting the bank's narrow geographical focus on Burgenland and the Greater Vienna area, despite some limited activities in Germany, Hungary and Slovakia. Further, the assigned score reflects Bank Burgenland's significant exposure to highly cyclical CRE, representing a multiple of its equity. Although the portfolio is focused on the relatively stable housing sector, significant tail risks are linked to the sector because it faces higher rates, increasing funding costs, lower property values and declining demand.

Bank Burgenland's market risk is higher than that of its peers, reflecting the tail risk stemming from guarantees related to insurance products, where the bank provides a guarantee for the invested capital to cover potential shortfalls in case the underlying assets' performance or evaluation falls below the relevant value. Such a guarantee is rather typical for the insurance sector and not for a regional banking franchise.

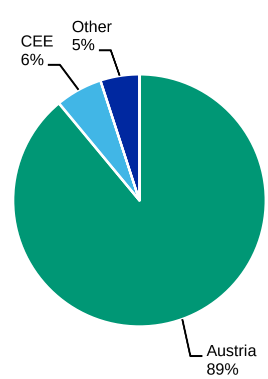
However, Bank Burgenland's asset management and private banking activities via its Schelhammer Capital subsidiary are a balancing factor. These activities act as a stabilising and diversifying factor, even with regard to profitability, with litigation risk being a relatively remote tail risk.

Exhibit 4
Bank Burgenland's loan book mainly includes SMEs, whereas its credit exposure to big corporates is limited



Sources: Company and Moody's Investors Service

Exhibit 5
Bank Burgenland's operations are mainly concentrated in Austria and, to a smaller extent, in the CEE region,



Sources: Company and Moody's Investors Service

Sound capital ratios provide strong buffers

We assign a Capital score of aa3, in line with the initial score, to reflect the bank's sound capitalisation, which provides good investor protection in case the tail risks materialise.

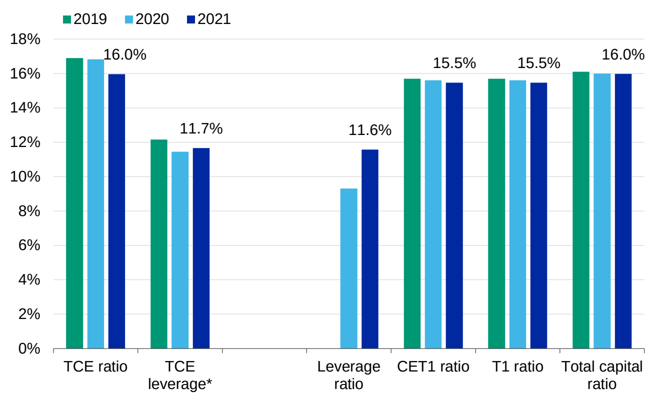
Bank Burgenland's capital ratio, measured as tangible common equity (TCE)/risk-weighted assets (RWA), of 16% is solid, as is its regulatory capital. With a Common Equity Tier 1 ratio (CET1) and Tier 1 ratio of 15.5% and a total capital ratio of 16% as of year-end 2021, the buffers are strong compared with the regulatory requirements, despite a marginal decrease in the CET1 ratio by 13 basis points from 2020, attributable to an increase in RWA because of balance-sheet growth.

The bank's sound capital position is underlined by its robust leverage ratio of 11.6% and a very high risk density, with RWA accounting for 73% of total assets as of year-end 2021, based on the standard approach for risk weights. The bank benefits from its good profitability and limited payouts of profit to its parent, GRAWE Group. This supports the bank's capital generation capacity, which should enable it to absorb potential increases in RWA caused by a deterioration in asset quality as a result of the expected economic downswing without impairing its capital position.

Exhibit 6

Bank Burgenland maintains sound capital despite a downward trend over the last several years but it might come under pressure given the deterioration in asset quality

Capital as a percentage of RWA; leverage ratio in percentage of tangible assets

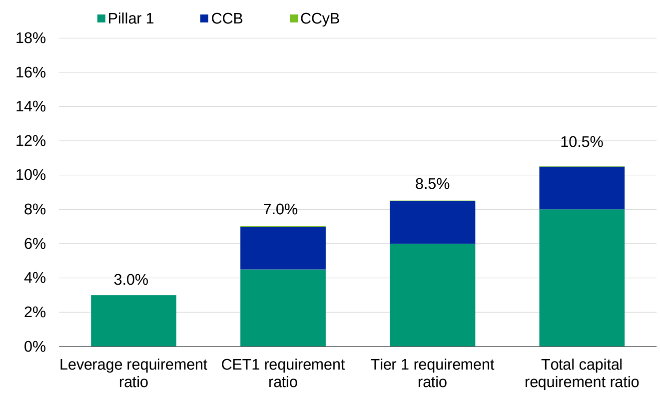


TCE = Tangible common equity; CET1 = Common Equity Tier 1; the TCE leverage ratio compares TCE with tangible banking assets.
Sources: Company and Moody's Investors Service

Exhibit 7

Bank Burgenland exceeds its regulatory capital requirement as of year-end 2021

As a percentage of RWA



CCoB = capital conservation buffer; CCyB = countercyclical capital buffer.
Sources: Company and Moody's Investors Service

The Austrian regulator FMA did not decide to increase the countercyclical buffer from the current 0% or implement additional sectoral buffers related to residential lending. However, it imposed stricter lending criteria as of July 2022 after the strong increase in housing prices in recent years.

Strong profitability is supported by a diversified earnings profile

We assign a Profitability score of baa2 to Bank Burgenland, one notch below the initial score of baa1, reflecting our expectation that rising risk costs because of the economic downswing and the bank's focus on more cyclical sectors, such as CRE and SMEs, combined with the difficult environment for its asset management and private banking activities, will strain the bank's profitability in 2023.

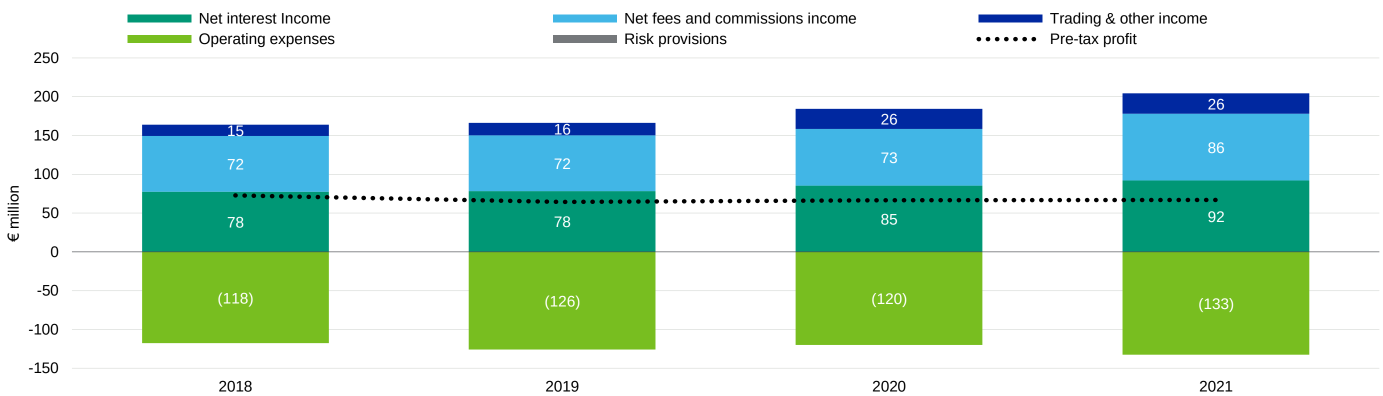
The group's earnings stream is more diversified than that of its domestic peers of the same size, reflecting Bank Burgenland's business profile, including significant private banking and asset management activities. However, the difficult operating environment will constrain profitability, although from a strong level. The positive impact of higher interest rates will support net interest income despite a potential slowdown in loan demand as most of the loan book is based on variable rates; however, higher operating and risk costs should balance the effect. Further, the asset management and private banking business faces pressure from the decline in assets under management because of the market slowdown, which will weigh on revenue. The strain on revenue, combined with increasing operating costs, will likely erode margins.

Bank Burgenland's profitability is strong, as reflected in a net income of €53 million as of year-end 2021, up 6% compared with the previous year, although the net income of tangible banking assets remained stable at 0.8% because revenue growth mirrored balance-sheet growth. Non-interest income accounted for 55% of net revenue, whereas net interest income made up 45%. Non-interest income was at €112 million, up 14% from the previous year. The increase was mainly driven by fee and commission income (up 29% from the previous year), which accounted for 77% of non-interest income while evaluation effects rose by 41% to €12 million from the previous year. Net interest income increased by 7.7% to €92 million, despite the low interest rate environment in 2021.

Overall operating expenses increased over the last three years to €133 million as of year-end 2021, up 11% from the previous year. In 2021, administrative costs increased to €54 million, up 24% from the previous year. However, the bank's cost-to-income ratio remained at 65%, stable compared with the previous year.

Exhibit 8

Bank Burgenland maintains a diversified earnings stream and is likely to benefit from the positive interest environment
Data in € million



Operating expenses include personnel expenses, administrative costs, deposit insurance fees and systemic risk charges, and depreciation and amortisation.
Sources: Company and Moody's Investors Service

Strong deposit base, achieved by its covered bond franchise

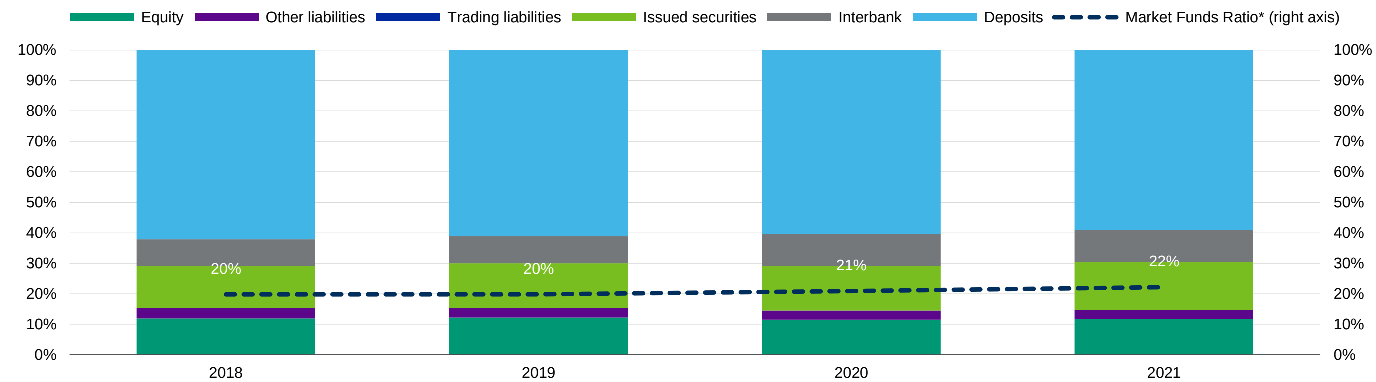
We assign a Funding score of baa1 to Bank Burgenland, in line with the initial score, reflecting the bank's contained 22% market funding as if tangible banking assets and our expectation of future market funding reliance, including our expectations around the replacement of the maturing ECB's TLTRO with other funding sources.

Bank Burgenland's main funding source is its €3.9 billion in deposits as of year-end 2021, which make up 59% of total assets. The loan-to-deposit ratio was at 115%, reflecting the higher amount of loans at €4.4 billion compared with €3.9 billion of deposits, which exposes the bank to some limited reliance on confidence-sensitive market funding sources, including interbank liabilities of €0.7 billion (including the bank's recourse to TLTRO), covered bond funding of €0.5 billion and senior unsecured liabilities of €0.5 billion.

Exhibit 9

Bank Burgenland mainly relies on deposit funding

As a percentage of tangible banking assets



*Market funds ratio = Market funding/tangible banking assets.

Sources: Company and Moody's Investors Service

Liquidity is sufficient

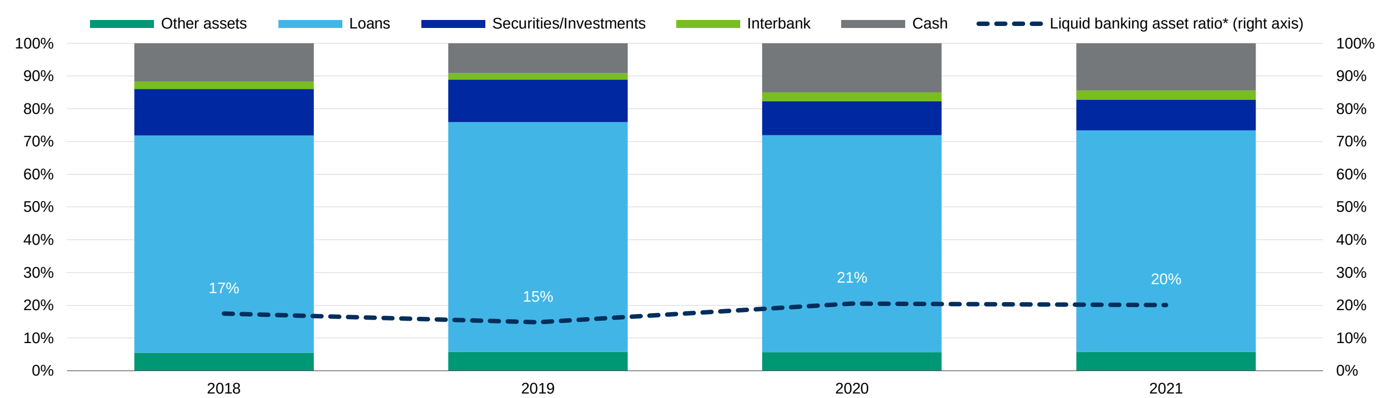
We assign a Liquid Resources score of baa3, two notches below the baa1 initial score, reflecting the bank's sufficient unencumbered liquidity reserve levels.

Bank Burgenland's liquid resources, mainly held in cash and cash equivalents (€945 million), are at 20.07% of tangible banking assets, supported by a small repo-eligible securities portfolio of €0.2 billion and dues from other financial institutions of €0.2 billion. The bank's LCR of 170.3% with an NSFR of 121% as of year-end 2021 are well above the required minimum.

Exhibit 10

Bank Burgenland maintains a liquid balance sheet, which is particularly high because of its participation in the ECB's long-term refinancing programme

Asset breakdown as a percentage of tangible assets



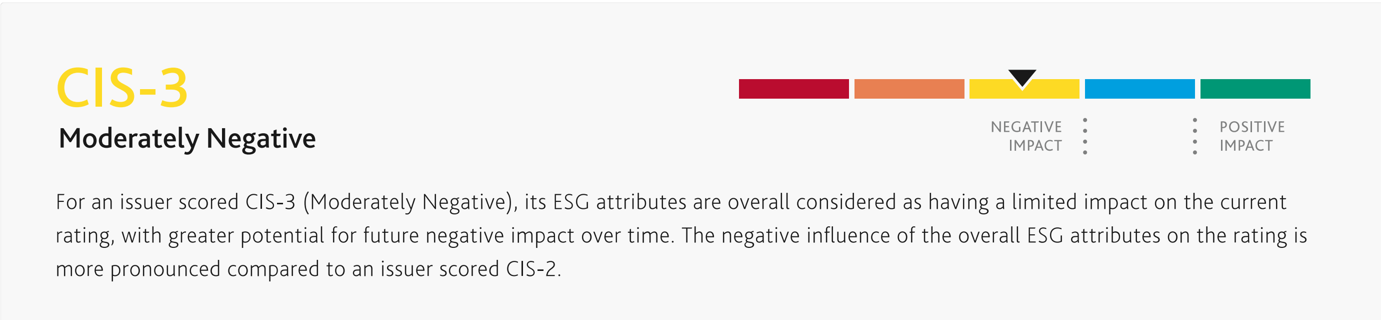
*Liquid banking assets ratio = Liquid assets/tangible banking assets.

Sources: Company and Moody's Investors Service

ESG considerations

Hypo-Bank Burgenland AG's ESG Credit Impact Score is Moderately Negative CIS-3

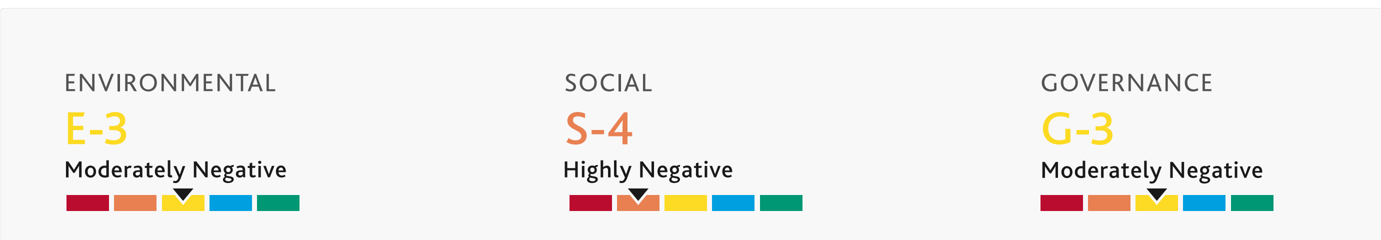
Exhibit 11
ESG Credit Impact Score



Source: Moody's Investors Service

Hypo-Bank Burgenland AG' (Bank Burgenland) Credit Impact Score is moderately negative (**CIS-3**). The score reflects moderate governance risks mostly related to the management's less proactive risk and capital management in comparison with peers. Environmental and social factors have a limited credit impact on the ratings to date.

Exhibit 12
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Bank Burgenland faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a regional, diversified bank. In line with its peers, Bank Burgenland is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Bank Burgenland is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks and tries to align its business with the transition to a low-carbon economy.

Social

Bank Burgenland faces high industrywide social risks related to customer relations and associated regulatory risk, litigation exposure and high compliance standards in its operations. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

Bank Burgenland faces moderate governance risks, reflecting the bank's sound profitability and limited loan losses, despite elevated market and non-lending credit risks that go beyond the typical profile of a regional banking franchise. The bank's risk management, policies and procedures are largely in line with industry practices, and commensurate with its universal banking model, though risk and capital management are less proactive in comparison with peers . Bank Burgenland is owned by the mutualist insurance group Grazer Wechselseitige Versicherung AG (GRAWE Group, 100%), which is reflected in the composition of its board of directors, that includes representatives of the owner next to employee representatives. A number of independent board members and Austria's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

The introduction of the BRRD has demonstrated a reduction in the willingness of the EU governments to bail out banks because it severely restricts the conditions under which authorities can use public money to fund a bank recapitalisation. We expect most failing banks to be resolved without governments providing financial support. This approach to support will be broadly consistent throughout the EU because the BRRD provides little room for national discretion.

As a result, government support is considerably limited. Therefore, Bank Burgenland's ratings do not benefit from government support uplift, given its small size in the context of the Austrian banking system.

Loss Given Failure (LGF) analysis

Bank Burgenland is subject to the EU BRRD, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter a resolution.

In our Advanced LGF analysis, we consider not only the results of both the formal legal position (pari passu, or de jure scenario), to which we assign a 75% probability, but also an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or de facto scenario), to which we assign a 25% probability.

We further assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. The following are the results of our Advanced LGF analysis:

» For the deposit ratings, our LGF analysis indicates a very low loss given failure, leading to a two-notch rating uplift from the bank's baa1 Adjusted BCA.

» For the issuer ratings, our LGF analysis indicates a low loss given failure, leading to a one-notch rating uplift from the bank's baa1 Adjusted BCA.

Counterparty Risk Ratings (CRRs)

Bank Burgenland's CRRs are A1/P-1

The CRRs are three notches above the bank's baa1 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments, particularly junior deposits, that are subordinated to CRR liabilities in our Advanced LGF analysis.

Counterparty Risk (CR) Assessment

Bank Burgenland's CR Assessment is A1(cr)/P-1(cr)

The CR Assessment is three notches above the Adjusted BCA of baa1 based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and senior unsecured debt. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

The principal methodology used is the Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the outcome of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard outcome and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13
Hypo-Bank Burgenland AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	-	-	-	ba1	Sector concentration	Market risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.0%	aa3	↔	aa3	Risk-weighted capitalisation	Expected trend	
Profitability							
Net Income / Tangible Assets	0.8%	baa1	↔	baa2	Return on assets	Expected trend	
Combined Solvency Score		a2		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	22.1%	baa1	↔	baa1	Extent of market funding reliance	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	20.1%	baa1	↓	baa3	Stock of liquid assets	Expected trend	
Combined Liquidity Score		baa1		baa2			
Financial Profile				baa1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				-			
BCA Scorecard-indicated Outcome - Range				a3 - baa2			
Assigned BCA				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	1,973	30.2%	2,411	36.9%
Deposits	3,855	59.0%	3,462	53.0%
Preferred deposits	2,853	43.7%	2,710	41.5%
Junior deposits	1,002	15.3%	752	11.5%
Senior unsecured bank debt	496	7.6%	451	6.9%
Dated subordinated bank debt	12	0.2%	12	0.2%
Equity	196	3.0%	196	3.0%
Total Tangible Banking Assets	6,532	100.0%	6,532	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	21.6%	21.6%	21.6%	21.6%	3	3	3	3	0	a1
Counterparty Risk Assessment	21.6%	21.6%	21.6%	21.6%	3	3	3	3	0	a1 (cr)
Deposits	21.6%	3.2%	21.6%	10.1%	2	3	2	2	0	a2
Senior unsecured bank debt	21.6%	3.2%	10.1%	3.2%	2	0	1	1	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	1	0	a3	0	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 14

Category	Moody's Rating
HYPO-BANK BURGENLAND AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Investors Service

REPORT NUMBER 1348610

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